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# The Province of Alberta



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## IN THE MATTER OF "THE NATURAL GAS UTILITIES ACT"

—and—

## IN THE MATTER OF an Enquiry into Scheme to be adopted for Gathering, Processing and Transmission of Natural Gas in Turner Valley

G. M. BLACKSTOCK, Esq., K.C., *Chairman*

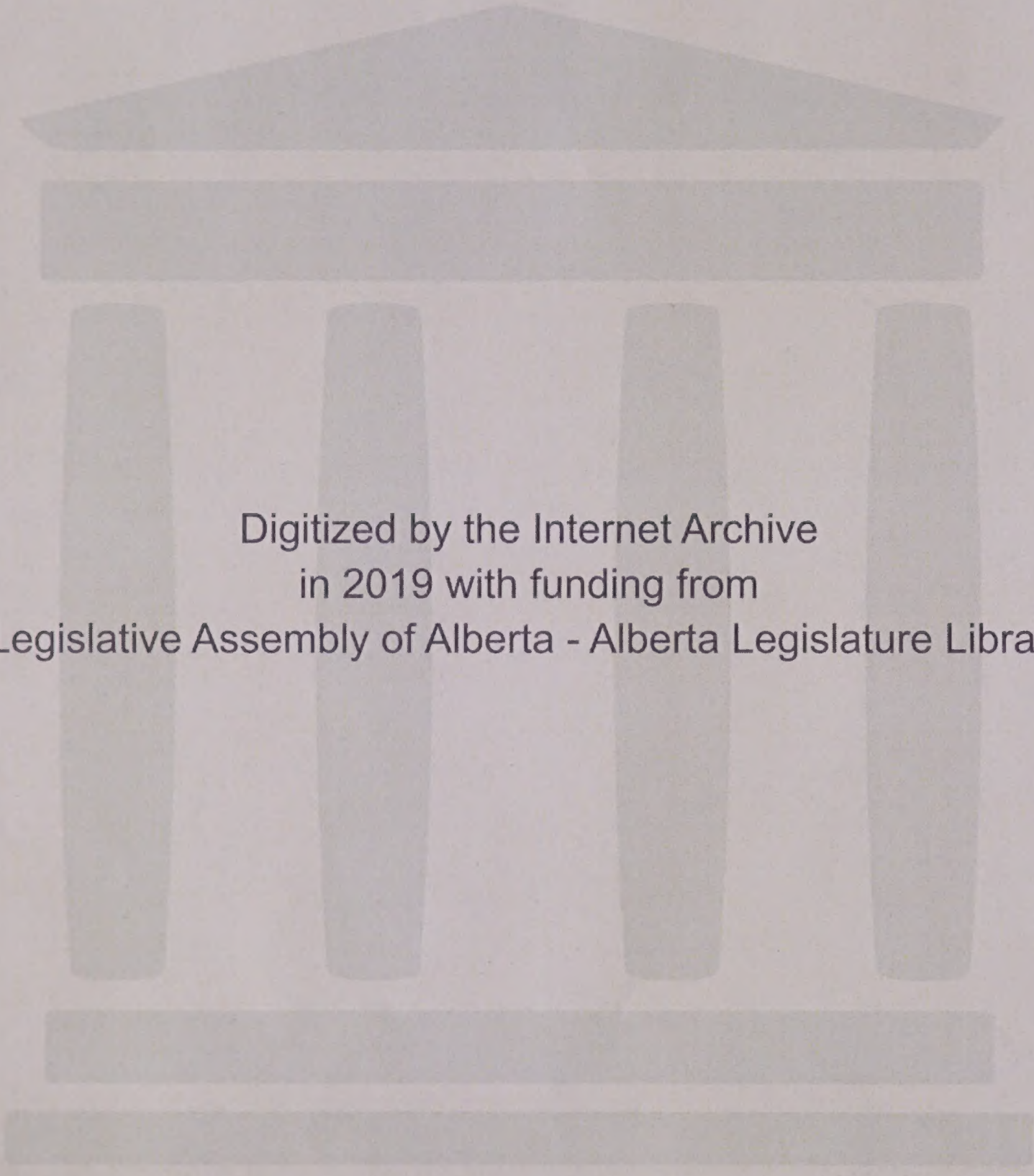
Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

*Session:*

CALGARY, Alberta December 18th, 1945

VOLUME 61





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I N D E X

VOLUME 61

DECEMBER 18TH, 1945

W I T N E S S E S

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ROBERT WINSLOW HAMILTON (Continued)

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SECRET

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1. The information contained in this document is classified as SECRET.

2. It is to be controlled in accordance with the provisions of the

3. Executive Order of the President of the United States, dated

4. September 17, 1950, and the related regulations.

5. This document is to be handled in accordance with the provisions of

6. the Executive Order of the President of the United States, dated

7. September 17, 1950, and the related regulations.

8. It is to be controlled in accordance with the provisions of the

9. Executive Order of the President of the United States, dated

10. September 17, 1950, and the related regulations.

SECRET



Corrections.

- 4809 -

CORRECTIONS BY D. P. McDONALD TO VOLUME 51,  
EVIDENCE OF HANINA ZINDER:

<u>PAGE:</u>	<u>LINE:</u>	<u>CORRECTION:</u>
3997	5	Sixth word "accomplice", should be "economist".
3997	7	Last word "accomplice", should be "economist".

CORRECTIONS BY D.P. McDONALD TO VOLUME 52,  
EVIDENCE OF HANINA ZINDER:

4030	7	The second last word "market", should be "remote".
4032	19	The last words "pot warming", should be "hot water heating".
4034	22	The ninth word "retailing", should be "retailers".
4074	10	The seventh word "Huberton", should be "Hugoton".
4074	17	The tenth word "Huberton", should be "Hugoton".
4075	10	The last word "Huberton", should be "Hugoton".
4075	13	The third word "Huberton", should be "Hugoton".
4095	3	The ninth word "company", should be "country".

CORRECTIONS BY D. P. McDONALD TO VOLUME 53,  
EVIDENCE OF HANINA ZINDER:

4181	11	Seventh word "southern", should be "Federal".
4183	6	Third word "difference", should be "different".
4184	1	Fifth word "anything", should be "any increase".
4193	27	Fifth word "Western", should be "combustion".



COMPARISON OF A. T. HOBKINS TO OTHERS  
IN THE FIELD

DATE	TIME	DESCRIPTION
1957	8	First visit "Hobkirk", should be "Hobkirk".
1957	8	Second visit "Hobkirk", should be "Hobkirk".
1958	8	Third visit "Hobkirk", should be "Hobkirk".
1958	8	Fourth visit "Hobkirk", should be "Hobkirk".
1958	8	Fifth visit "Hobkirk", should be "Hobkirk".
1958	8	Sixth visit "Hobkirk", should be "Hobkirk".
1958	8	Seventh visit "Hobkirk", should be "Hobkirk".
1958	8	Eighth visit "Hobkirk", should be "Hobkirk".
1958	8	Ninth visit "Hobkirk", should be "Hobkirk".
1958	8	Tenth visit "Hobkirk", should be "Hobkirk".
1958	8	Eleventh visit "Hobkirk", should be "Hobkirk".
1958	8	Twelfth visit "Hobkirk", should be "Hobkirk".
1958	8	Thirteenth visit "Hobkirk", should be "Hobkirk".
1958	8	Fourteenth visit "Hobkirk", should be "Hobkirk".
1958	8	Fifteenth visit "Hobkirk", should be "Hobkirk".
1958	8	Sixteenth visit "Hobkirk", should be "Hobkirk".
1958	8	Seventeenth visit "Hobkirk", should be "Hobkirk".
1958	8	Eighteenth visit "Hobkirk", should be "Hobkirk".
1958	8	Nineteenth visit "Hobkirk", should be "Hobkirk".
1958	8	Twentieth visit "Hobkirk", should be "Hobkirk".

COMPARISON OF A. T. HOBKINS TO OTHERS  
IN THE FIELD

1958	8	Twenty-first visit "Hobkirk", should be "Hobkirk".
1958	8	Twenty-second visit "Hobkirk", should be "Hobkirk".
1958	8	Twenty-third visit "Hobkirk", should be "Hobkirk".
1958	8	Twenty-fourth visit "Hobkirk", should be "Hobkirk".
1958	8	Twenty-fifth visit "Hobkirk", should be "Hobkirk".
1958	8	Twenty-sixth visit "Hobkirk", should be "Hobkirk".
1958	8	Twenty-seventh visit "Hobkirk", should be "Hobkirk".
1958	8	Twenty-eighth visit "Hobkirk", should be "Hobkirk".
1958	8	Twenty-ninth visit "Hobkirk", should be "Hobkirk".
1958	8	Thirtieth visit "Hobkirk", should be "Hobkirk".



MEMORANDUM OF CORRECTIONS OF TRANSCRIPT  
VOL. 54

Evidence of HANINA ZINDER

<u>PAGE:</u>	<u>LINE:</u>	<u>CORRECTION:</u>
4285	24 & 25	Change words "and purchased" to read "or produced".
4286	2	Delete the words "that gas each time" and substitute the words "when gas of each type" and delete the word "and" (last word in line).
	13	Change "have" to "having".
	21	Delete the words "Or are" and start new sentence "The royalties, etc."
	25	Change word "and" occurring between words "companies" and "the" to "being".
	26	Delete words "expect as royalty, that is in" and substitute "get, is".
	27	Change words "company cost in" to "company's cost of".
4290	25	Add word "is" between words "Commission" and "to".
	28	Change "those" occurring between words "of" and "replacement" to "the".
4295	21	Delete the words "basic value of" and substitute the words "basis of allocating".
4302	29 & 30	Should read: MR. HARVIE: That is the Oklahoma Commission. MR. McDONALD: The Oklahoma Commission.
4306	25	Delete the words "I got back from my holidays" and substitute the word "lunch".

Evidence of MEMORANDUM OF CORRECTIONS OF TRANSCRIPT  
Andrew Stewart VOL. 57

4536	25	Delete word "suddenly" at end of line.
4539	28	Change word "proper" to "improper".
	29	Change "arrive" to "arrived"
4541	5	Change "conservation" to "conservative"
	6	Change words "the last" to "a longer".



RESEARCH REPORT ON THE HISTORY OF THE

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Corrections.

- 4811 -

Corrections to Volume 57 Continued.

<u>PAGE</u>	<u>LINE:</u>	<u>CORRECTION:</u>
4541	19	Change "unit" to "units"
.	22	Change "that unit" to "those units"
4542	6	Change word "is" between "what" and "expected" to "was".
4543	11	Change "ever" at end of line to "every year".
4544	2	Add "a" between "really" and "utility" and change "competiror" to "competitor".

MEMORANDUM OF CORRECTIONS OF TRANSCRIPT  
VOL. 58

Evidence of Robert Winslow Hamilton.

4625	7	Change third word "were" to "was".
	9	Change word "thousand" to "dollar".
4628	26	Delete word "in" (second last word in line)
	28	Add word "were" between words "reserves" and "on" and change "their" to "them".

Evidence of Robert Donellan.

4635	20	Change "Exhibit 102" to "Exhibit 118".
	25	Change "Exhibit 102" to "Exhibit 118".
4639	6	Change "that" to "amount".
	7	Change "those" to "they".
4651	1	Place period after "cent" and commence new sentence "If on the etc."
	2	Insert the words "the cost" between the words "want" and "to".

MEMORANDUM OF CORRECTIONS OF TRANSCRIPT  
VOL. 59

Evidence of Robert Winslow Hamilton.

4687	24	Place period after "items" and commence new sentence "In M-9-A/44 I notice etc."
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Summary of Findings

<u>Item</u>	<u>Value</u>	<u>Notes</u>
James H. Smith	100	
John A. Smith	50	
John B. Smith	25	
John C. Smith	10	
John D. Smith	5	
John E. Smith	2	
John F. Smith	1	
John G. Smith	1	
John H. Smith	1	
John I. Smith	1	
John J. Smith	1	

Summary of Findings

<u>Item</u>	<u>Value</u>	<u>Notes</u>
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John G. Smith	1	
John H. Smith	1	
John I. Smith	1	
John J. Smith	1	



M-1-1 - 9.30 A.M.

R. W. Hamilton,  
Cross-Exam. by Mr. Chambers.

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VOLUME 61

9.30 A.M. Session,  
December 18th, 1945

ROBERT WINSLOW HAMILTON, Cross-Exam-

ination continued by Mr. Chambers:

Q I was through with Mr. Hamilton, but he said he was going to get something further on the question of salvage.

A In our Exhibit 124, Volume 2, Page 29 and Page 28, we indicated in principle we believe that salvage values should be taken into account. That was in our submission at the time it was prepared last Spring. Subsequent to that the question of salvage was discussed with certain of the technical witnesses at this Hearing and in our Exhibit 125 which was subsequently prepared I said this:

"On the evidence there seems to be little importance attached to the ultimate salvage resulting, for example when gas lines are out of service even though physical condition might be excellent."

And with that in mind it, of course, being solely a matter of engineering opinion as to whether salvage is a significant factor or not, we prepared certain alternative rate bases in which salvage values were ignored and in principle we recommended one with a figure of \$1,573,668.00 in which salvage value was ignored. Now there are several matters in connection with salvage that have to be taken into account. First of all as to whether there is going to be salvage at the termination of the economic life of the project, and secondly, what disposition would be made of that salvage.

It seems to me from a practical point of view, by its very terms the economic expiry of these projects will mean that the only people left in the picture to whom the proceeds of the



Handwritten notes in the top right corner, possibly a date or reference number.

First main paragraph of text, starting with a faint heading or subject line.

Second main paragraph of text, continuing the narrative or discussion.

Third main paragraph of text, concluding the page's content.



R. W. Hamilton,  
Cross-Exam. by Mr. Chambers.

- 4813 -

salvage would accrue, would be the proprietors of the utilities. The consumers may actually have made possible the complete amortization of the salvage but it would be impossible I should think, very impracticable, to refund to the consumers that excess amortization and therefore it does suggest itself to me that some reasonable estimate of salvage should be made, recognizing that will accrue in greater or lesser amounts to the proprietors of the utilities.

It seems to me there are several ways in which that can be done. The Board can now say that for all time we are making an estimate of salvage at a certain percentage and come what may we will not change that. In other words the risk is in the risk assumed by the proprietor that the salvage will work out in approximately the amount presently estimated. Another possibility would be to say we will take an estimate of salvage by X % and we will refund that at a certain future date presently stated. Or, the Board might say we will take into account a certain percentage X for salvage and we will revise that in the future at the request of any party on the basis of such further information as may then be available. To be consistent of course the salvage is to be taken into account in computing depreciation charges against the rate in the future, that same salvage percentage should be taken into account in computing the rate base as at the time of coming under regulation. It would be possible however and perhaps expedient to adopt one estimate of salvage now and still leave it open to variation in so far as the calculation of future depreciation is concerned without necessarily at the time of revision recomputing the opening rate base. Allied with that question of course is the matter I raised the other







R. W. Hamilton,  
Cross-Exam. by Mr. Chambers.

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day, the question of incidental retirement and to some extent at least that is associated with the problem of salvage. I can foresee that if the capital loss sustained on retirement is to be borne by the proprietors of the utilities, human nature being what it is, there will be a tendency to maintain the equipment in service after the point at which it would have been economic to retire the unit. If, on the other hand, incidental retirements are chargeable as to the rate involved to current operation, then it is a matter of indifference to the shareholders of the proprietor of the utility whether a unit is left in the service or not and it becomes then just a matter of good engineering and management whether equipment will be taken out of service or not from time to time. Does that cover the point ?

MR. CHAMBERS: Yes.

MR. BLANCHARD: Might I ask a question about that. It is something I have not discussed with Mr. Hamilton and it has just occurred to me. Is a provision for salvage such as you have been discussing consistent with the throughput basis for accrued depreciation ?

A Yes sir.

Q I was just wondering.

A It can be taken into account in the throughput method or ignored in the throughput method, just as it can in any other straight line depreciation formula.

Q And if provision for depreciation is made in the throughput method if taken into account, salvage....

A Beg pardon.

Q I say have your figures for accrued depreciation on the throughput basis taken into account salvage ?



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R. W. Hamilton,  
Cross-Exam. by Mr. Chambers.  
Cross-Exam. by Mr. Steer.

- 4815 -

A We have prepared rate base determinations on both bases. Some with and some without salvage allowance. It makes a difference of approximately thirty odd thousand dollars, \$33,000.00, whether you take it in or ignore it.

MR. McDONALD: That is up or down ?

A If you take salvage into account it means that there has been a smaller sum of assets subject to depreciation, consequently the depreciation accrued to date is less and consequently your rate base is higher.

Q MR. HARVIE: That is on the overall expenditures or rate base or different matters of rate base, that \$33,000.00 ?

A That is just the Madison we are speaking of and over a long period of time it might be a matter of indifference in the ultimate rate charged because the taking into account of salvage will reduce the annual depreciation charge, but because the rate base is maintained at a higher level than it would otherwise be you get a higher cost of the rate of return. Whether the utility gains or not depends upon whether the theoretical rate of interest taken into account risk is more or less compensated for in the actual rate given.

MR. CHAMBERS: If the Board pleases, there are one or two other matters I would like to discuss with Mr. Hamilton. I should say in fairness to him he has not given any thought to it and if he is back again I would like to speak to him about it and deal with it later.

CROSS-EXAMINED BY MR. STEER

Q In these WH 46, 47 and 50 Statements, Mr. Hamilton, the unit cost appears to increase rather sharply over the period 1944 to 1948 ?



*Journal of Management Studies*, 19(6), 701-718.

[illegible]

Figure 1 consists of two scatter plots. The left plot shows a positive correlation between the number of children and the number of children in the household. The right plot shows a negative correlation between the number of children and the number of children in the household.



R. W. Hamilton,  
Cross-Exam. by Mr. Steer.

- 4816 -

A Yes sir.

Q Is that likely to continue throughout the length of the life of the project, that increasing cost ?

A My recollection is that the substantial increase in 1946-7-8 as compared with 1944 and 1945, is due to the expectancy on the part of the Madison Company that the volume of sales will dip sharply in 1946. I believe it was due to their anticipation that the Nitrogen Plant would go off the line and other war plants will take less gas and so forth.

Q And are we able to anticipate that from 1949 on that those costs are not going to be higher than say your costs for 1948 ?

A All we have sir is an opportunity of making an intelligent guess. I think two factors are going to be of importance. One is the volume of gas to be taken by the market and the other is the force of interest. Now if you will look at WH 26, these are purely hypothetical figures, but they do indicate the point I want to make. We assumed an opening rate base of two million five -, which of course is much higher than was subsequently sought on behalf of the Madison Company and depreciation was allowed at a flat rate of \$132,000.00 a year. However, with the necessity of making certain additions, all of which were expected to be made, that is additions of any kind, during the years 1944 to 1948, the additions pretty well offset the depreciation charge and consequently the rate base remains fairly level with the consequence that the rate of return remains fairly level, in fact increased slightly. The amount involved being on the order of \$400,000.00 a year. When you get beyond 1948, however, the depreciation provision is pulling the rate base down and there is no offsetting condition to take into account, at least none projected, and consequently there is a







R. W. Hamilton,  
Cross-Exam. by Mr. Steer.

- 4817 -

very substantial saving in the force of interest and you will recall our discussion yesterday in which it was pointed out that approximately 40% of the service rate to the utility at the outset comprised interest and there will be a subsequent and cumulative saving in the 40% portion of the service rate. What the ultimate effect will be will depend I should say on possible diminution of the market demand.

Q We will assume then the demand remains fairly steady after 1948 or increases. Then what we can expect would be lower costs than those for the year 1948 ?

A Yes increasingly lower costs.

Q Increasingly lower costs and have you given any thought to the duration of a rate once it is fixed ?

A Well I certainly think the rate should be fixed for longer than a year.

Q Would you suggest five ?

A I would go that far, sir.

Q I take it from the way in which these reports are made up that is possibly what you had in your mind ?

A I think it would be unfortunate if we struck a theoretical correct rate for one year and have to raise it the next year and bring it back the year after and so that no one will know what the cost will be and I think in general industry should know what gas is going to cost.

Q What do you think now of fixing the rate now for the life of the project ?

A I have given some thought to that. I think there is some merit to the suggestion. On the other hand, there are other practical difficulties. When I said a moment ago I thought the rate should be struck for five years, it would be very important.





M-1-7

R. W. Hamilton,  
Cross-Exam. by Mr. Steer.

- 4818 -

to watch how that rate was working out, because we have no experience from which to go on and I would imagine it would be enquired into very carefully the first two years to not change unless circumstances required it to be changed.

Even though there might be some disparity in the results of performance as compared with the projection of estimated costs. If you were to strike an average rate for the entire life of the project you would be forced to do one of two things. Either to utilize the sinking fund method of depreciation which would have the effect of equating roughly the annual cost of depreciation and interest combined so that an increasing depreciation cost would offset the decreasing interest cost, so that the apparent total cost remained more or less the same from 1944 through 1946 and 1948. The difficulties I perceive in that, sir, is that it maintains a high rate base and from a practical point of view with the evident risk inherent in the project I think it should be to the consumer's advantage to endeavour to provide for a fairly rapid reduction in the rate base in order to avoid the force of interest. In very much the same way that a Municipality will try to finance public improvements on a bond issue which has a much shorter life than the life of the improvements themselves. In other words it is perhaps a contribution to prosperity, but at the same time taking a fairly broad view of what you mean by the consumer class, it is generally to their interest to get the rate base down as rapidly as possible and of course it is to the interest of the utility too because the amount at risk is less and therefore the rate of interest would be expected to be less.

Q. I wonder if that fixing of the rate over a period of five

1. The first part of the document is a letter from the President of the United States to the Congress, dated January 3, 1862. It is a very important document, as it contains the President's annual message to Congress. The letter is written in a formal, dignified style, and it is one of the most important documents in the history of the United States.

2. The second part of the document is a report from the Secretary of the Interior, dated January 10, 1862. It is a very important document, as it contains the Secretary's annual report to the President. The report is written in a formal, dignified style, and it is one of the most important documents in the history of the United States.

3. The third part of the document is a report from the Secretary of the Treasury, dated January 15, 1862. It is a very important document, as it contains the Secretary's annual report to the President. The report is written in a formal, dignified style, and it is one of the most important documents in the history of the United States.

4. The fourth part of the document is a report from the Secretary of the War, dated January 20, 1862. It is a very important document, as it contains the Secretary's annual report to the President. The report is written in a formal, dignified style, and it is one of the most important documents in the history of the United States.

5. The fifth part of the document is a report from the Secretary of the Navy, dated January 25, 1862. It is a very important document, as it contains the Secretary's annual report to the President. The report is written in a formal, dignified style, and it is one of the most important documents in the history of the United States.

6. The sixth part of the document is a report from the Secretary of the State, dated January 30, 1862. It is a very important document, as it contains the Secretary's annual report to the President. The report is written in a formal, dignified style, and it is one of the most important documents in the history of the United States.

7. The seventh part of the document is a report from the Secretary of the War, dated February 5, 1862. It is a very important document, as it contains the Secretary's annual report to the President. The report is written in a formal, dignified style, and it is one of the most important documents in the history of the United States.

8. The eighth part of the document is a report from the Secretary of the Navy, dated February 10, 1862. It is a very important document, as it contains the Secretary's annual report to the President. The report is written in a formal, dignified style, and it is one of the most important documents in the history of the United States.

9. The ninth part of the document is a report from the Secretary of the State, dated February 15, 1862. It is a very important document, as it contains the Secretary's annual report to the President. The report is written in a formal, dignified style, and it is one of the most important documents in the history of the United States.

10. The tenth part of the document is a report from the Secretary of the War, dated February 20, 1862. It is a very important document, as it contains the Secretary's annual report to the President. The report is written in a formal, dignified style, and it is one of the most important documents in the history of the United States.



R. W. Hamilton,  
Cross-Exam. by Mr. Steer.

- 4819 -

years, if it were adopted has not got a bearing on that question which you and Mr. Chambers were discussing yesterday. The question of the depreciation of future capital additions.

Your view I took it was that you wanted those future capital additions taken into consideration now so that your rate of depreciation should be pretty uniform over the whole project ?

A I would not go so far as to say we would necessarily take the future capital additions into account in determining current depreciation charges but I think we should recognize it, if we did not the fact will be to increase the future depreciation charge.

Q Now is it not true we will say that after 1948 with the decreasing impact of interest, consumers in those years would be better able to absorb the cost of the future capital additions than consumers today ?

A Yes sir.

Q The costs are higher now than they are going to be in any subsequent time ?

A If the projects continue in the form in which we see it now.

Q Yes. When I say now I mean for that first five year period you are going to have high costs and given a reasonable demand after 1948 we are going to have lower costs ?

A Yes sir.

Q That will be so ?

A Yes.

Q And from that point of view it will probably be wise to let the future consumers bear the additional capital costs made in the future ?

A On the whole that would be a sound procedure. What was concerning me, sir, was the emphasis placed in evidence at more

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R. W. Hamilton,  
Cross-Exam. by Mr. Steer.

- 4820 -

than one point on the possibility of some other field asking for a share of the Calgary market in which case of course the Calgary consumer would have to maintain two sets of facilities for the same amount of gas and consequently the quicker we get the cost of this project down the less danger there is of such a duplication becoming burdensome to the consumer.

Q Now in all your figures I note that the sum that is going to be paid - you have included the sum that is going to be paid by the Royalite absorption plant towards the cost of this undertaking, this \$53,400.00. You simply accepted their basis of 15% I presume ?

A I just use it as a basis of calculation, but I have reserves on the subject right from the beginning.

( Go to Page 4821 )

THE HISTORY OF THE

REIGN OF KING CHARLES THE FIRST

IN THE YEAR 1649

BY JOHN BURNET

OF THE SOCIETY OF THE APOSTLES

IN THE YEAR 1649

BY JOHN BURNET

OF THE SOCIETY OF THE APOSTLES

IN THE YEAR 1649

BY JOHN BURNET

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OF THE SOCIETY OF THE APOSTLES

IN THE YEAR 1649

BY JOHN BURNET

OF THE SOCIETY OF THE APOSTLES



H-1-1 9.50 a.m.

R. W. Hamilton,  
Cross-exam. by Mr. Steer.

- 4821 -

Q And perhaps you will discuss with us your views on that question. Let me put this to you, the absorption plant, whether it is the Royalite plant or the British American plant or the Gas & Oil Refineries plant, they all have their gathering systems, as you understand?

A Yes sir.

Q Now I am suggesting to you that the analogy that was drawn between gas as a carrying force for crude oil and gas as a carrying force for the naphtha content that is got out of the gas at the absorption plant is probably not a very good analogy, for this reason, that the absorption plant requires to treat and will extract certain products from every cubic foot of gas that goes through, do you understand that?

A Yes sir.

Q And the product as it issues from the absorption plant is an entirely different product from that which enters it?

A Yes sir.

Q And out of every cubic foot that has gone through it certain substances, hydrocarbons, have been extracted?

A Yes sir.

Q Now with that in mind would you as an accountant have a view on the fairness or otherwise of charging to that absorption plant for those services the gathering costs of that product that they required, somewhere on the basis of a fraction of one hundred over one hundred and eighty-five, if we assume there is a 15% loss in volume in the process, do you follow me?

A Yes, I believe I do, sir. I have given a good deal of thought to this very vexing question as to how to split the costs between the absorption plant and the residue markets, and the only conclusion that I can come to is that the division of costs





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has got to be made on that arbitrary volumetric basis, say one-half or three-quarters or something like that.

Q What is wrong with my suggestion?

A If I were to rely on the volumetric basis I would be more than likely to use the one used by the Company, 15% of the volume stays here and 85% passes on, therefore, we will charge this with 15% and this with 85. You have there a case of joint costs and you cannot carry either product without carrying the other. And one might argue, well, all the cost should be charged to the absorption plant because whether there is a residue market or not, the absorption plant would incur those costs. It might also be argued on the other hand that the residue market should pay the whole costs whether the absorption plant has the whole gas that is passing through the line. Now, I think the merit of the volumetric method is when there is an element of election as to whether or not the substance to be transported is transported. In other words, if you were managing a truck-hauling company, and you were carrying potatoes and coals, you might divide the cost of transportation between the two products, according to the relative weight and the volume of each which you carried, provided that you could vary the amount of coal or potatoes to be carried. But in this instance you can not, the two necessarily pass through together, and for that reason volume, to me, falls to the ground as a proper basis of division.

Q I have read some discussions of this volumetric method in cases in the United States, and the description given of it there is that the charges are based on the amount required by the one customer and the amount required by the other customer?

A Mathematically, it would afford a basis that an accountant could





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follow and might follow in certain circumstances.

Q Very well. If that is the proper application of the volumetric basis, then my suggestion of the fraction of one hundred over one hundred and eighty-five would be a proper application of the method, would it not?

A On your premises, sir, yes.

Q Well is there anything wrong with my premises that the absorption plant requires every single cubic foot of gas that goes into that system? Mr. Hamilton, as far as you know is there anything wrong with that?

A Yes, suppose the proprietor of the absorption plant would say "We do not want this 85%, all we want is the 15%".

Q But they get the 100% and treat it?

A Not because they want it but because they are the people that split it up.

Q Well, the man who is mining the gold doesn't want the rock, he wants to treat that rock in order to get the gold out, that is right isn't it?

A Yes.

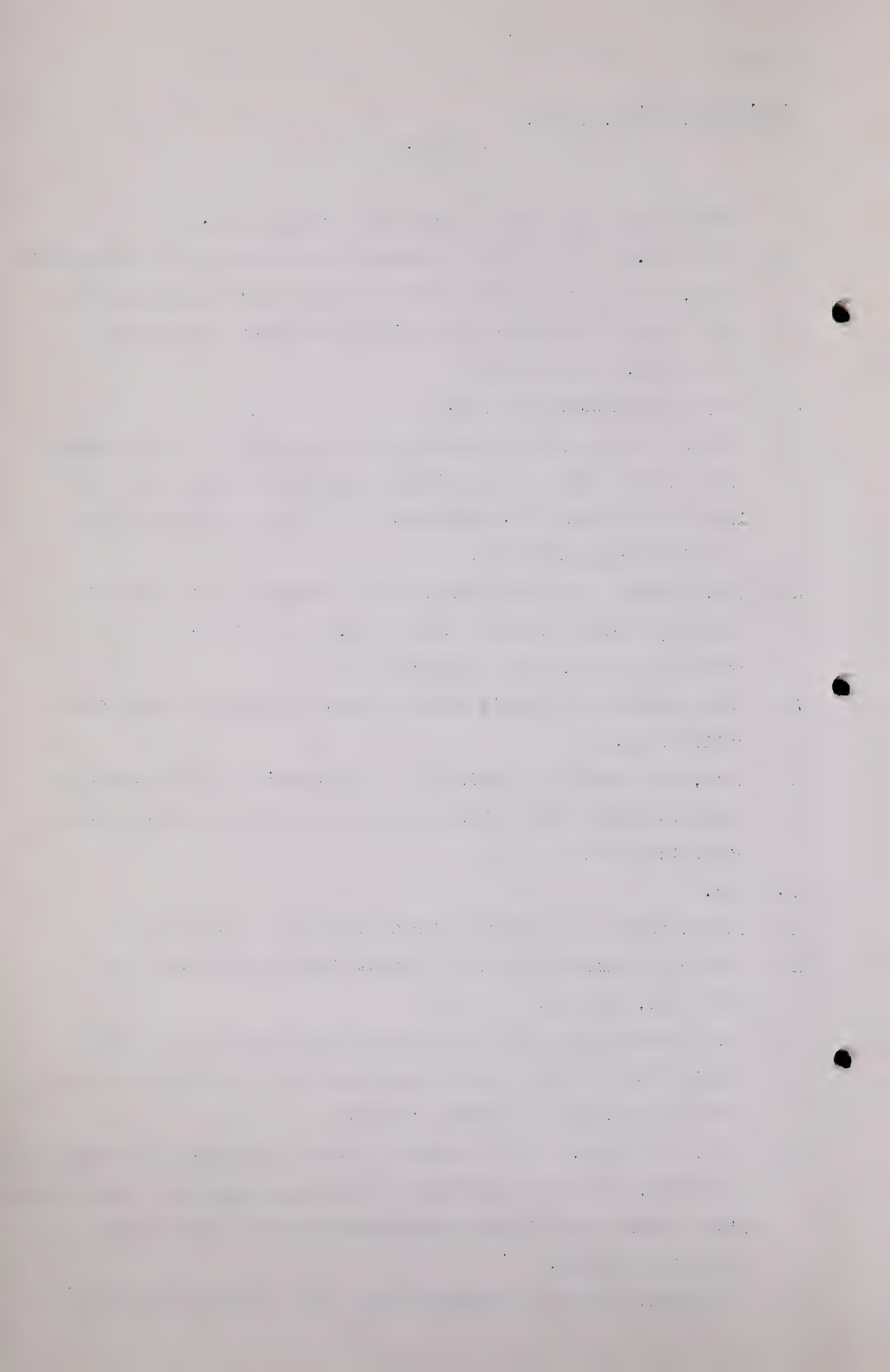
Q Is not that the analogy so far as this gas is concerned?

A You are assuming there is a market for the slugs from the gold mine, are you?

Q No, I say that in this absorption plant process this residue gas is just the same as that rock that is left, after the gold is taken out, it is a waste product?

A Well, of course, if it is solely a waste product, with absolutely no market, then the question of the apportioning of costs cannot arise because there is one contributor and that contributor must pay all the costs.

Q All right. Then it transpires that there is some use found of





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what was originally a waste product?

A Yes sir.

Q And we will suppose that the products themselves can be measured by volume measure, and then I suggest to you that on that supposition one hundred to one-hundred and eighty-five would be a very fair fraction, would it not?

A It might be, sir, On the other hand it might be uneconomic and I think you have got to take the economics of the situation into account.

Q How do you suggest it would be uneconomic?

A I say it might be uneconomic. In other words, the apportionment between the two commodities of the transportation costs must be within the limits of being profitable to each operation.

Q Yes?

A And if the market for the residue slugs from the gold mine would take that substance at say 4 cents a ton when the transportation cost was 10 cents a ton, you cannot charge it more than 4 cents.

Q Here we are dealing with this situation where there are certain absorption plants that operate and bear all the costs?

A Yes sir.

Q And they are economic operations?

A We assume so.

Q They would not have been carrying on otherwise?

A Pardon?

Q They would not have carried on otherwise over a period of years?

A Right, sir.

Q Very well. That being so, when you come to consider a market for the residue you have not got any question of economics have you?

A Yes.





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Q Where do the economics come in with respect to the residue or with respect to the absorption plant?

A At the time when the waste product acquires a value it is a matter of the two parties to the bargain, except under regulation, threshing out a price somewhere between the cost of service and what the traffic will bear.

Q Yes, exactly. But when you come to consider what in fairness ought to be borne by the main industry, the absorption plant, would not the suggestion I make to you be a fair one, that is, as formerly they bore all the costs, and now having the market for the residue that you treat it on the basis of volumes used by either one of them?

A Speaking historically, I think there is a good deal of merit to your suggestion. The absorption plants were in the picture first, and were carrying the costs and, therefore, the residue should bear little, if any, of the transportation costs. That is speaking historically.

Q MR. CHAMBERS: Are you speaking about Turner Valley?

A Yes sir, with particular relation, for example, Sir, with the South end of the field. On the other hand, historically the absorption plants may have been the more important and the more profitable aspect of the business, but that does not necessarily mean to say that that situation will continue, and it might be that charging and undue - pardon me a heavy proportion of the cost of gathering gas, might drive the absorption plant into bankruptcy, in which case the residue market would have to carry the whole costs of gathering.

Q Isn't the amount of money, take the British American plant, isn't the amount of money that it is receiving for its residue gas, isn't it velvet?





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MR. HARVIE: Isn't it what?

MR. STEER: Velvet.

A Velvet for somebody, I do not know for whom.

Q Pardon?

A Velvet for somebody, I do not know for whom.

Q Well, to the B.A.?

A Yes, that is right.

Q To the B.A. shareholders?

A That is right.

Q So that anything that is obtained for that residue product by the British American absorption plant, and by those with whom it has contracts, is pure gain?

A That is correct.

Q So that even if the B.A. were compelled to absorb all the gathering costs, there would not be anything unfair about it?

A No sir, from that point of view.

Q Yes. That is the point of view from which we ought to look at it?

A It is a point of view.

Q Is it yours?

A No, not altogether. It is one of the points of view that drives me to the conclusion that the apportionment has to be arbitrary.

Q I am suggesting it need not be arbitrary, Mr. Hamilton?

A Well, that is what it drives me to.

Q I am suggesting to you that if an absorption plant requires the whole of the product before it can carry on its operation, then that product is its raw material, would you agree with that?

A Yes sir.

Q And that that raw material has to be treated for the obtaining of a certain product?

A Yes sir.





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Q And that if they are fortunate enough to find a market for the residue, that you are being more than fair if you say 100 parts to the absorption plant and 85 parts to the residue market, and divide the cost on that basis, I say that you are more than fair if what you are dealing with is really a waste product of a primary operation?

A Yes sir.

Q Now then, you and my friend, Mr. Chambers, were talking about income tax yesterday, and I wonder if this is right. I think it is. Although it is suggested by you that income tax is slightly more than 40% by reason of the depreciation that has previously been taken, my recollection is that it was stated here that all the Madison Company was asking for in the way of allowance for income tax is 40%?

A Yes sir, that was my understanding.

MR. CHAMBERS: I confirm that. We are not asking that income tax chargeable to the rates be increased in any way due to a write-off in the property with regard to its value prior to regulation.

THE WITNESS: The point that was raised yesterday, Mr. Chambers said, "And all we can get out of this is 60%," and I said, "You won't get even 60%, slightly less."

MR. STEER: Oh yes, I see. That is all, thank you.

THE CHAIRMAN: Mr. Fenerty?

.....

CROSS-EXAMINATION BY MR. FENERTY

Q Mr. Hamilton, in connection with Part 9 of your report, I take it that you have either heard or read the evidence directed to any computation based on investment of cost of wells, the evidence





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of different parties?

A I have read some of Mr. Zinder's evidence but not all of it.

Q I refer you, for instance, to Mr. Zinder's statement at Page 4024, Volume 51:

"Q And would you go so far as to say with me with your knowledge of the situation that has preceded the present one, and as we are now, that it is a completely unsound approach?

A I think the costs approach, the question of the price, or costs of the gas at the well, is an unsound approach."

And then I wanted to refer you to a statement of Mr. McDonald, on behalf of the Producers, found in Volume 52.....

A That is Mr. whom that is speaking?

Q Mr. McDonald. 4026,:

"MR. McDONALD: Well the approach is not unsound on the figures which are submitted but it does not apply to the valuation of this gas, that is what we say. The approach is entirely sound as far as it goes."

You see, as far as the figures or the calculations go, that approach does not apply to the valuation of the gas. Then I think my learned friend, Mr. McDonald, will support me when I suggest to you that his position before the Appeal Court with reference to that same point, was as follows, - would you mind checking this, Mr. McDonald, and see if I have it correct?

MR. McDONALD: Yes.

MR. FENERTY:

"We feel that the complexities involving costs are so great that it is impossible to fix the prices of gas on the basis of cost. We must look for another basis of value. The basis is service value to the ultimate



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consumer.

MR. McDONALD: Yes, that is right.

MR. FENERTY: And I think I am right in saying that Mr. Blanchard took the same position that you could not take the cost approach, am I right, Mr. Blanchard?

MR. BLANCHARD: Yes.

Q MR. FENERTY: I want you to tell me how far you agree with all of those views as to the cost approach?

A If I am right in my understanding that the Natural Gas Utilities Act constitutes gas wells as a public utility, then I believe that the cost approach cannot be entirely abandoned. It will form, perhaps, a limit on price. I should think that if the value for gas is fixed on the basis of some other approach, it gives you a price for gas which results in such a profitable operation to the proprietor of the gas well, that it becomes such that I believe the cost approach would have to be re-introduced to give a limit.

Q So in general you say that the cost approach would be of some value with regard to this in providing a ceiling limit?

A Yes sir.

Q Beyond which you could not go?

A Beyond which you should not go from the point of view of fairness to the consumer and perhaps from the point of view of, rather the unfortunate economic consequences that would flow from that. I would be afraid of too rapid expansion of the gas well industry bringing in competitive gas wells which would in turn drive the price back up again.





T-1-1 10.10 A.M.

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Q You leave me a little uncertain as to what value you attach to the cost approach.

A I take it as a control.

Q For instance, if, as was suggested by various counsel, the cost approach basis would mean that they would be getting 30 cents or more for their gas, then if no other approach was given effect to, the cost could not be more than 30 cents.

A That is correct, providing that your cost approach could be implemented. In other words if you have the necessary things to give you a clear cut indication of the cost.

Q Well let us put it this way that if any of the other approaches which might be considered will give you a result less than the cost approach method, you would then disregard that approach?

A No, I say it forms a ceiling.

Q I was trying to shorten this Inquiry but I do not know whether I have succeeded in lengthening it or not. If all the other parties who are interested and represented here were in agreement that there could be no justification for the cost approach to this situation, then I will not continue. That is what I wanted to devote my cross-examination to. Cannot we all agree?

MR. CHAMBERS: For the purposes of the record, I do not think I have ever taken a position one way or the other.

MR. FENERTY: I just assumed that my friend was going to be practical.

THE CHAIRMAN: The difficulty with the cost approach is that if you have 200 wells which are connected to the gas gathering system, that is using the gas today, you have 200 different well prices. That is inevitable, unless every well





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cost the same and unless every well had produced in the past the same amount. We know that is not so. But you will remember there is an amendment to the Act this year which ~~excludes~~ <sup>excludes</sup> the Board from using the cost approach or the utility approach.

MR. FENERTY: Perhaps I will pursue it a little further.

THE CHAIRMAN: Perhaps I should not say that. But that is my view at the moment, that it cannot be done.

MR. FENERTY: I do not want to be tilting at windmills but I submit if the producers take the position that they are not relying and should not rely on the cost approach basis, that that should be the end of the cost approach basis.

THE CHAIRMAN: I am not going to ask Mr. McDonald to commit himself or his clients today on that question, so go ahead with your cross-examination on that point.

MR. FENERTY: That is just what I intend to do.

THE CHAIRMAN: I am leaving it to you.

MR. FENERTY: All right. I will go ahead.

Q Mr. Hamilton, unfortunately I have not got the volume but do you remember the evidence of Mr. Stevens-Guille in Volume 54 at page 3044, to the effect that the development in Turner Valley and the spacing of the wells and development generally is not the development that would have taken place had the development been for the purpose of a gas development in the first instance?

A. Is that the evidence of Mr. Stevens-Guille?

Q Yes.

A In Volume 54?

Q Yes, I think that is so.

MR. CHAMBERS: I do not know.



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MR. FENERTY: Let me see.

A I do not think Mr. Stevens-Guille gave evidence that late.

MR. FENERTY: Perhaps Mr. Steer could tell me.

MR. STEER: No, I have not got it.

MR. FENERTY: I should have it.

MR. STEER: I remember Mr. Stevens-Guille giving evidence on that.

Q MR. FENERTY: Assuming that Mr. Stevens-Guille has in fact given evidence that the set-up there as to spacing of wells and the development does not correspond with proper engineering development for a gas-production operation only.

A Yes, sir.

Q Just assume that.

A Yes, sir.

Q And assuming that we have, for instance, a group of 17 wells on one section - section 20 - and assuming that we have a group of 11 wells on the East half of another section - the East half of 6 - and again assuming that the spacing of wells for gas operations are very much greater than that - you will perhaps remember we had some evidence of the Hugoton/<sup>Field where</sup>there was 640 acres and in some other field much less, but in every case very much greater spacing than here. Would that indicate to you that the cost approach, that is applying the cost of drilling wells for oil, has nothing much to do with the price of gas?

A I still think the cost approach has some points to commend it, to be taken into account in conjunction with other approaches.

Q And would you use the cost of drilling an oil well because they also produce gas with the oil operation?



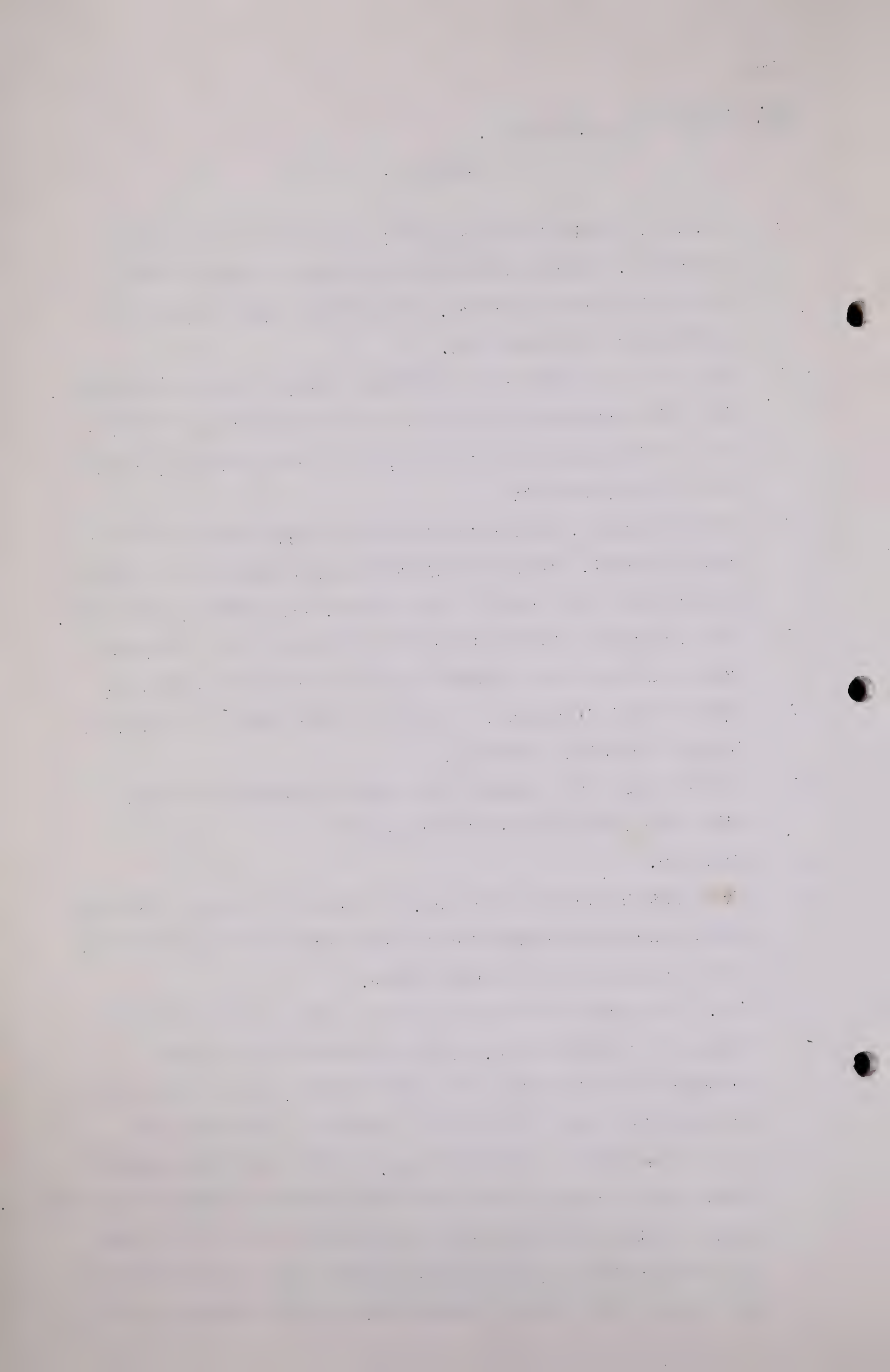


T-1-4

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- A No, sir, I said if you could find the cost of a gas well operation. I made that reservation when I spoke of the theoretical cost approach. I said there was considerable difficulty in applying it.
- Q Would you go further and instead of saying there is considerable difficulty would you say it is not possible to do so? And if it is possible to do so, what formula would you use to make the adjustment?
- A It is possible, sir, providing that we can agree on what is meant by cost, to be the difference between what the cost is and what the cost ought to have been, let us put it that way.
- Q You will agree with me it would be only as a last desperate resort that you would attempt to apply the cost approach?
- A I would want it anyway. I might be very loathe to adopt it to the exclusion of others.
- Q Would you say that some of the other approaches are more likely to lead to an equitable result?
- A Yes, sir.
- Q Then that is what we have got. We have got to this, that you have other approaches which in your opinion are much better?
- A Which are likely to be much better.
- Q Yes. I am going to leave it there. Now, Mr. Hamilton, in Volume 1 of Exhibit 124, W.H-18, dealing with the high pressure gathering lines and water system, you have an item of historical cost and general overhead. Now those two items under general overhead apply to both the high pressure lines and the water system and total thirteen thousand dollars odd. I gather from the way that tabulation is made up that you have satisfied yourself that these items of eleven thousand dollars odd and one thousand dollars odd, making up the





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thirteen thousand dollars odd, were not in fact charged by the B. A. Company to capital, to the cost of construction.

A That is my understanding of the information I had at the time. You will recall I did not examine the books.

Q Now the B. A. Company was engaged in an independent commercial operation, as you know.

A Yes.

Q Which had no connection with the supplying of gas to the Canadian Western Company prior to the institution of the present system under the new Act.

A Yes, sir.

Q And is it your understanding of these items going to make up the thirteen thousand dollars odd that they were in fact charged by that Company to operating expenses?

A I would expect so.

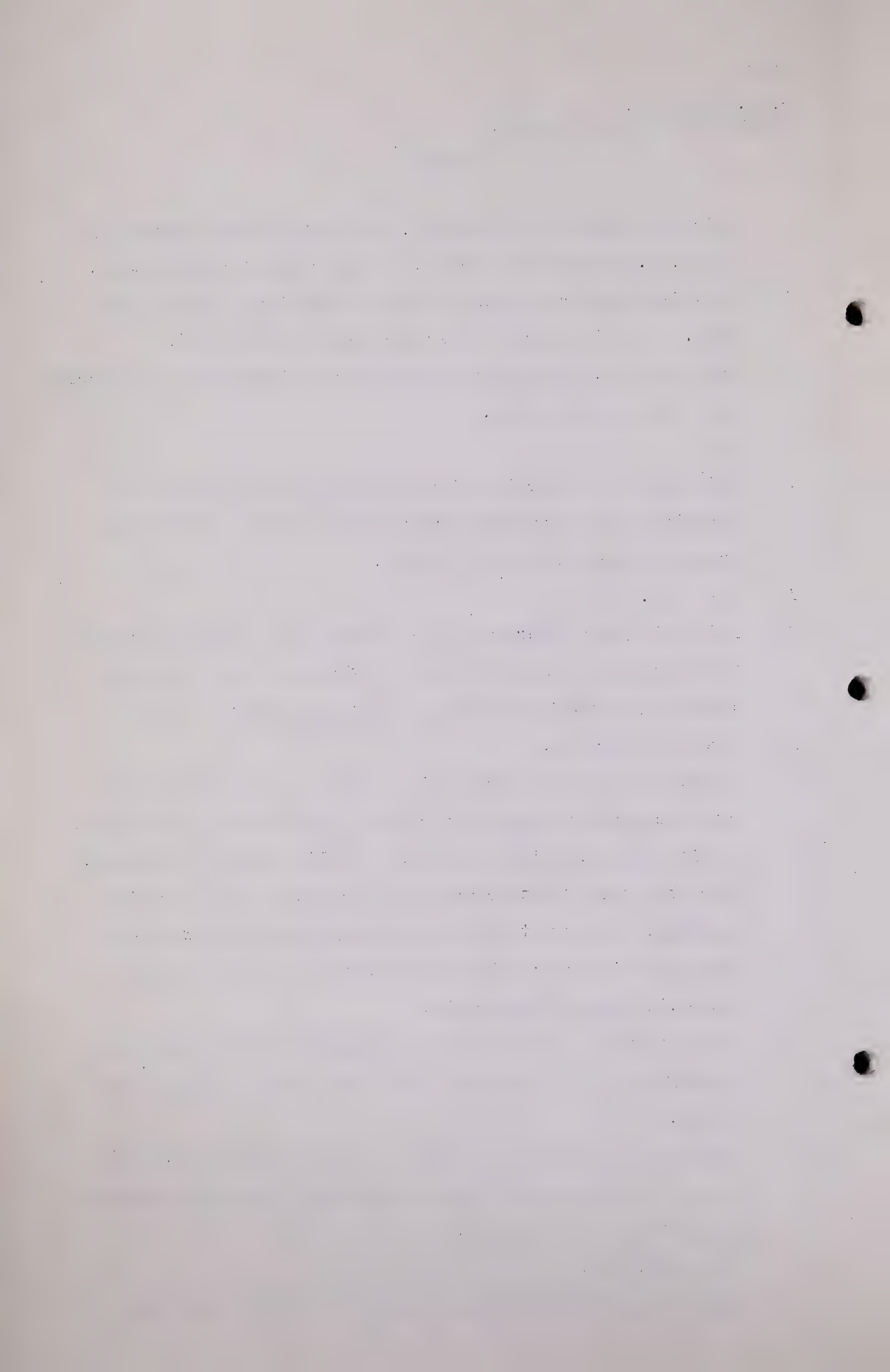
Q We have then, your understanding of the picture is that we have a company engaged in a commercial operation, nothing to do with the supplying of gas as a public utility to anyone, which has seen fit to charge those costs to its operating expenses. Do you think there is any reason why we should attempt to interfere with their idea of what is a proper system, to charge those costs.

A I am not sure, sir, whether I understand what you mean when you say should we interfere with their way of doing these things.

Q The way it works out, of course, is this, is it not, that as soon as you switch these charges from operating expenses to capital, it is capital.

A All right, sir.

Q That is when the operation becomes a utility it has the



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effect of course of at once increasing the amount of the rate base has it not?

A Yes, sir. If this is the rate base adopted.

Q Yes, and if those amounts had been previously charged to operating expenses it had the effect of decreasing the amount of income tax.

A That is right.

Q Yes.

A In that particular year.

Q In that particular year, yes.

A Over a period of 50 years with a uniform rate of tax, it is a matter of indifference whether the item is capitalized or written off to expenses.

Q So that this change from operating expense to capital cost does in fact have the effect of increasing the amount which the company will receive from somebody.

A If this is adopted as the rate base, yes.

Q During the period that it was charged to operating expenses, it decreased the amount that the company paid out.

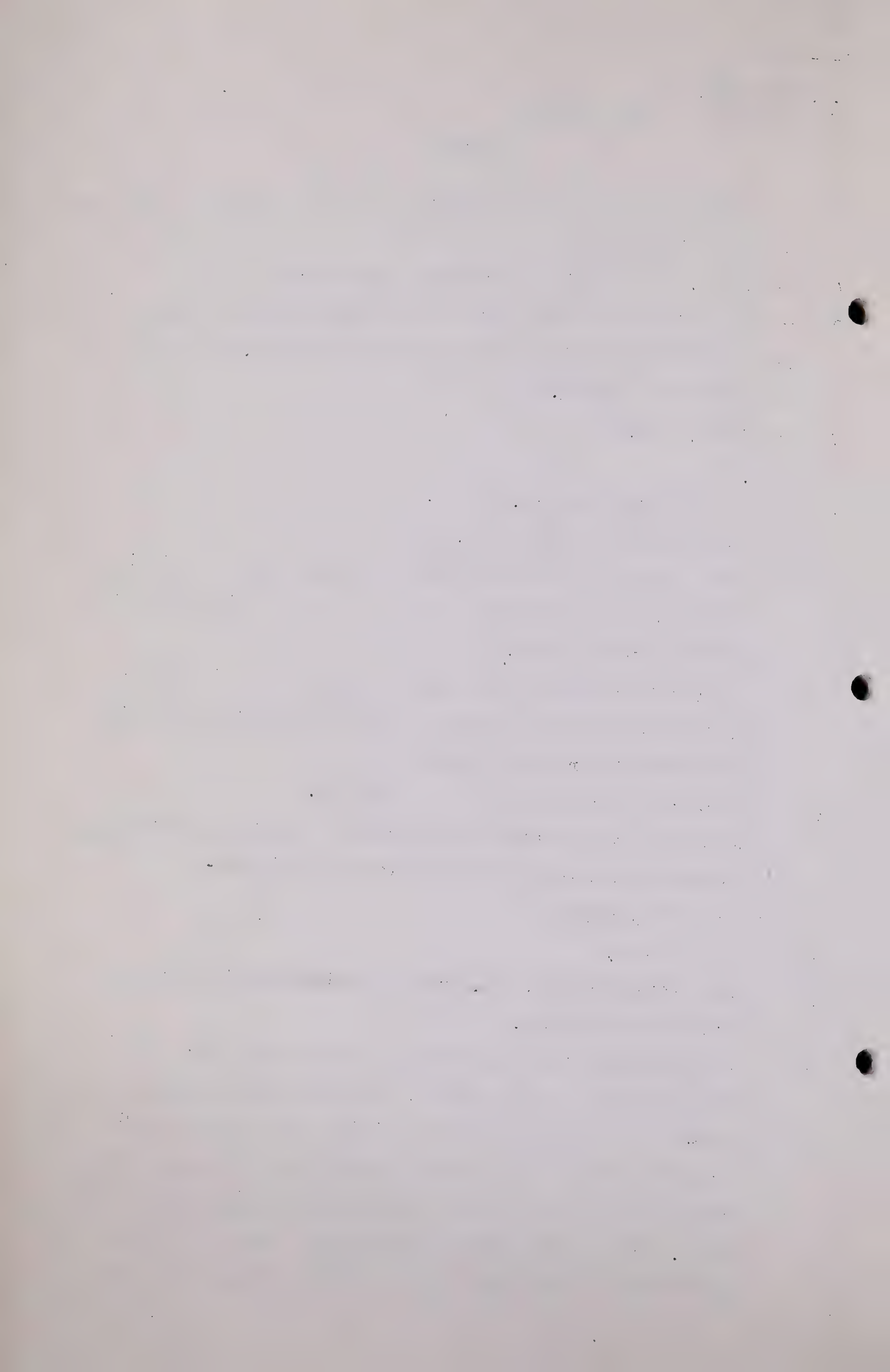
A In taxes you mean?

Q In income tax.

A That particular year, yes, but I do think they lost money on it though over-all.

Q I am wondering if you get the same impression I do. We have heard the theory advanced, and there may be plenty of support for it, that in public utility matters the amount of income tax that the public utility has to pay should be taken care of in the rate. I am not questioning that at the moment. But do you think, assuming that that is a sound proposition, do you think that justifies changes back and





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forth which result in an increased burden by way of income tax on the public that pays it?

A I think the two matters are totally disassociated.

Q I am coming to something else presently, but the question I am getting at is, and I just want to refer you to it so that you will remember it when we come to it later, is that once we get the principle that the public pays the income tax, that any system which involves the sharing of income tax by the utility in any way . . . . No, that is not right . . . . any system previously used is completely unsound where it is possible to adopt another system that loads more income tax on the public.

A I am sorry, sir, I did not quite follow you.

Q I do not blame you, you know, on that particular question, but I had to finish it. I will leave it at the moment and get to something else. In WH 15 in Volume 1 and also WH 13, an item referring to WH 15, I see that on that basis you get the net value of the high pressure system at \$30,000.

A \$27,000.

Q \$30,500. including the water system.

A Including the water system.

Q WH 15 on page 13, the item opposite . . . . .

MR. K. MORRISON: That includes the water system.

Q MR. FENERTY: Oh, including the water system, yes.

A Yes, sir.

Q \$30,000, and that is on the basis of book depreciation.

A Yes sir.

Q It would appear then that the British American Company had charged perhaps a higher rate of depreciation or a greater amount for depreciation as against those assets than had





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been adopted by the Royalite Company in connection with its assets, is that so? There is a very large amount written off there I notice.

A I would rather fancy that the two rates of depreciation are the same. I am not certain.

Q Oh I see, I thought perhaps it was an accelerated rate.

A No, I think this is the fact, that the Royalite system contains a higher proportion of recent installations.

Q Now have you examined any of the balance sheets of the British American Company?

A Casually, yes sir.

Q And the Royalite Company?

A Yes, sir.

Q And how does the valuation of the assets appear? Do you have a book value, historical cost of an item less depreciation?

A Not quite, sir. But I would be glad to look at them now if you have copies there and check them later.

Q I have one.

A I am quite sure the Royalite does not appear that way.

Q We will take the Royalite balance sheets and you might look at this one, "Capital Assets", so much, land, leases, buildings and so on, and then you have an item "less something",

A Would you like it read into the record?

Q You see that on that balance sheet?

A Yes.

Q Less items for depreciation.

A And depletion and amortization.

Q And that is a usual form of balance sheet?

A Yes, quite usual.

Q And proper, you think?



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A Quite. There is a notation here, I do not know whether it is significant or not, it reads:

"Capital assets are charged at cost except as to appraisals made by officials of the company of assets acquired from two former subsidiary companies" and so on. I do not think it is material.

Q No, I would not think so, and that statement arrives at the value of the assets, the net value, as the difference between the original value and the reserves for depreciation and depletion.

A Of capital assets.

Q Of capital assets?

A Yes.

Q And a layman like myself, reading that statement, I take it to mean that the physical value of those capital assets was the net result, 5 million odd, instead of the 19 million, at the time the statement was issued?

A No, sir.

Q Is my appreciation as a layman all wrong?

A I think so, sir.

Q That is not intended to convey to the shareholders that the present value of the assets as distinguished from the reserves, is this item of 5 million.

A What it is intended to convey, sir, is that the original cost was 19 million-four and that there has been provided out of profits or out of surplus, reserves for depletion, for depreciation and for amortization, etc. and amount amounting to 13 million-five, but, except in a very narrow sense, it is not suggesting that the present value is 5 million-eight.

Q Is it not, they take that as the present value for the





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purposes of balancing the statement, do they not?

A The value of the figure five million-eight is intended to be the difference between original cost less that portion of the cost which has been amortized.

Q I see.

A And the five million-eight does not necessarily represent the present value of the assets referred to, any more than a figure of \$1 represents the value of bank premises on bank balance sheets.

Q I see, but the fact remains that the capital assets, the land and buildings, wells, land and leases, wells and buildings, now appear as the result of deductions made, at a value of 5 million odd.

A Yes, I think that if there was any intention of conveying the impression that the valuation for present purposes is 5 million-eight, there would be no purpose in showing what the original cost was and what the reserves taken have amounted to.

Q I will tell you what I think was the impression to be conveyed, that the depreciation charged is supposed to have some relationship to what we originally called "depreciation".

A Yes.

Q I did not think I would be able to get to that conclusion with you, which I attempted to do several days ago.

A There is a relationship but not necessarily a close relationship.

Q And as we said before . . . . .

MR. HARVIE: Excuse me, I have a copy of Exhibit 116 which is the B.A. balance sheet if you want to refer to it.

MR. FENERTY: If it refers to it in that way.





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(Document handed to Mr. Fenerty) No, this does not show it in the same way. It shows the reserves as a liability on the opposite side.

Q MR. FENERTY: Now, Mr. Hamilton, on this question of rate of return, my understanding of the situation is that, Mr. Hill, - not rate of return, general overhead, that Mr. Hill showed a figure of 9% for general overhead, representing 3% interest and 6% of the cost of the operation, that is right is it not?

A No, not cost of operation. The remaining 6% was for legal expenses, administrative expenses and so forth.

Q Yes, I mean the percentage of the cost of operation to answer those various purposes, 6% of the operation.

A 6% of the total amount expended.

Q Yes.

A Not of the operation.

Q And the B.A. Company suggested a figure of 14%, made up of 10% and 4% for the same things?

A Yes.

Q And in Exhibit 125 you call attention to that fact?

A Yes.

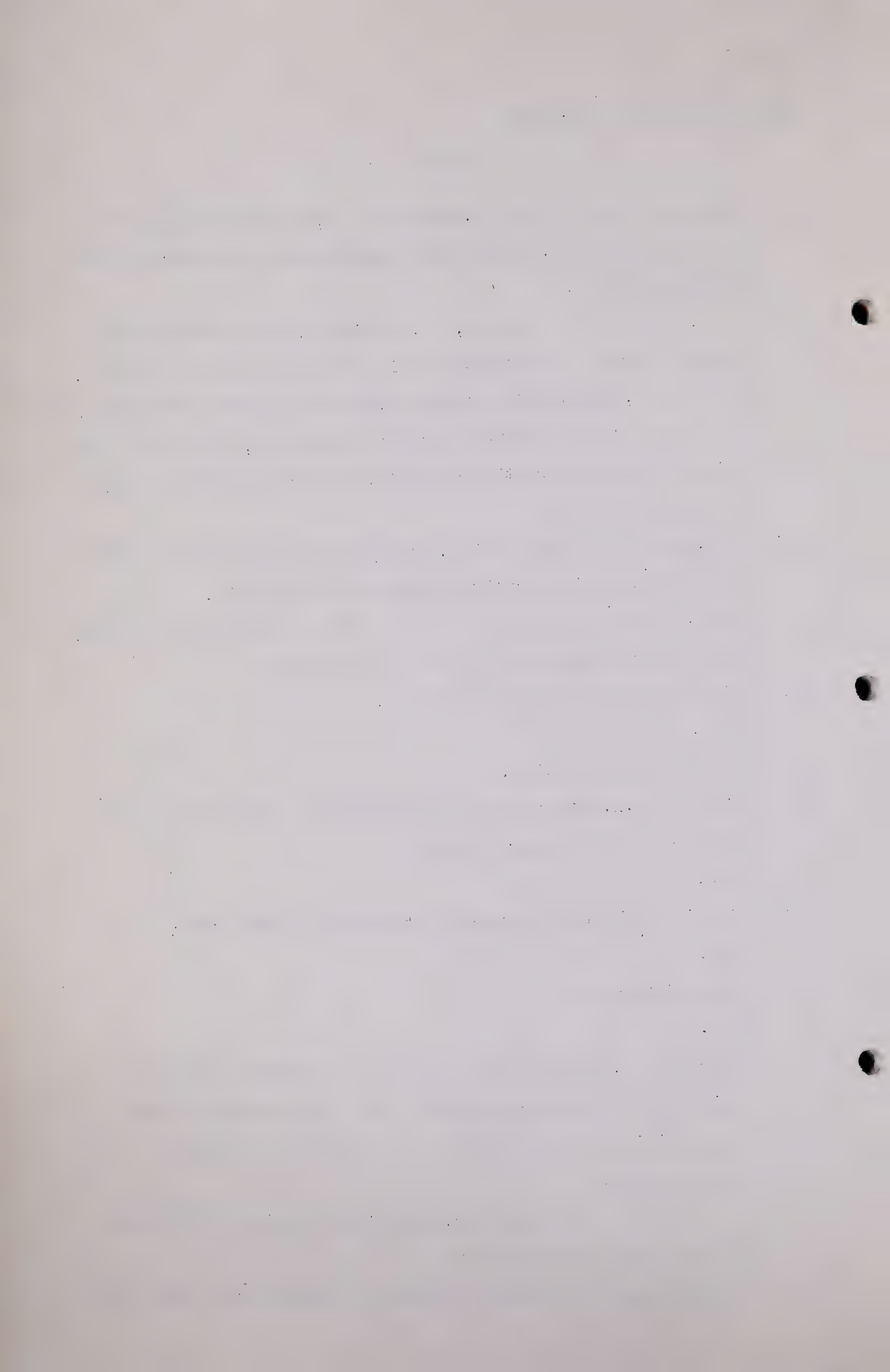
Q That difference?

A Yes.

Q "I consider, however, that particular attention should be given to the reasonableness of the 10% overhead claimed in addition to approximately 4% for interest during construction."

Now Mr. Hill in his figures estimated 9% throughout, did he not?

A 9% plus a special charge for use of construction tools and



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for transportation of workmen.

Q Oh yes.

A And no special, no such special allowance asked for by the British American.

Q And the B.A. Company was 14% during construction?

A 14% of the construction.

Q Of the construction, yes.

A Yes.

Q And will you just tell me again, you have already given this, what explanation was offered for the difference in the figures?

A I do not think I attempted to explain what explanation was offered.

Q Well do you know of any reasons why there should be a difference?

A Oh I believe Mr. Donellan, in evidence, did say that their experience had been on projects of a capital nature that about 10% represented their experience.

Q I see. There was some suggestion that the size of the project would have something to do with it.

A Yes.

Q Can you give us any assistance on that, whether or not it does affect it?

A I would think it does, sir. The smaller the operation, the smaller the program, the higher the overhead cost would be, other things being equal.

Q I see, and do you think that is a reasonable basis for the difference?

A No, sir.

Q Do you think there should be a difference?

A Pardon?





R.W. Hamilton,  
Cross-Exam. by Mr. Fenerty.

- 4842 -

Q Do you think there should be a difference?

A I would not be surprised if there should be a slight difference. I am not sufficiently qualified to say, but it would not seem unreasonable but the point which disturbed me with regard to that question, sir, was more the fact that there seemed to be some element which would originally be treated as overhead, which was already charged up as a direct cost.

Q Now, Mr. Hamilton, in your report, Volume II, page 43, you refer to that at the time this report was prepared:

"The company is unwilling to suggest a basis for the foregoing allocations".

A Yes.

Q And "In our statements WH 53 to 55, however, in presenting costs on the B.A. basis for comparative purposes, we have made certain tentative allocations from information furnished to us."

And then again at pages 54 and 55:

"We have previously indicated that the assignment of costs to the absorption plants has been on a basis of proportional volumes of extraction and residue; we appreciate however that many considerations apart from cost will have a bearing on this apportionment."

And once more at page 25, you say:

"Whether the absorption plant should be charged at more than the average rate per m.c.f. for absorption extraction volumes is a further question to which consideration will no doubt be given."

Now I gathered from those various references that what you have attempted to do in this report





R.W. Hamilton,  
Cross-Exam. by Mr. Femerty.

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is to take figures from various other reports and prepare tables showing the results of these figures, using some alternative methods and in some cases using, as you would have to, a particular set of figures without necessarily recommending those particular results.

A Yes.

Q What you are doing is assisting the Board by giving them the results of these different approaches.

A Giving them one over-all picture.

Q Yes.

A Which might be made up of component parts which were in themselves faulty.

Q , Yes. Now WH 43 of Volume I, where you have taken the average of four years, just what is the significance of taking that average figure over that period of 4 years. You have assumed that you have a declining consumption,

A Yes.

Q Does it mean that in order to apply those figures it would be necessary to adjust your rate base, base rate, no, rate base, every four-year period or five-year period?

A You are speaking now of the rate base or service rate.

Q Perhaps service rate, you see what I am getting at is that that average is not a true picture of any particular year, is it?

A That is correct, sir, and we are endeavouring to show the facts, first of all, that that was the average for the four years.

Q Yes.

A And secondly, that there were substantial variations from one year to another.



R. W. Hamilton,  
Cross-Exam. by Mr. Fenerty.

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Q Well, would you give any effect to that figure representing the average?

A I would be inclined to set a service rate which would hold for several years, yes.

Q That is what it comes to, is it not?

A That is correct.

Q If you base your rate on that average, it would have to hold for that same period of time?

A That is correct, in other words you would abandon the year as the period of accounting determination and take the four year period.

Q Yes, and the result of that is you have a rate which is too low for the first two or three years and too high . . . . .

A Too high for the first two or three years, perhaps.

Q And too low for the others?

A Yes, in just the same way as you strike one year, or one rate for the whole year, when the costs in the winter time are a whole lot less than they are in the summer time.

Q But in your opinion that works out on an equitable basis, whether the consumption is increasing or decreasing.

A I would think it would be an important concession to practicality. It would introduce elements of unfairness, perhaps.

Q What do you say as to the period of 4 or 5 years, do you think that is too long or too short?

A As I tried to make clear to Mr. Steer this morning, I thought there should be an effort made to strike the rate for four or five years if possible, but if the Board or the Company involved would pay sufficient attention to the progresses which were being made in the first instance, if it was necessary to change the rates they would be changed





R. W. Hamilton,  
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in the meantime, but they would try to hold it for five years.

Q Right. Now turning to page 19, Section 3, your reference to this Financial Post Survey.

A Yes.

Q And my friend, Mr. Chambers, questioned you and pointed out to you that none of those operations involved a company having a single operation which would come to an end at some definite period, do you think that the fact that you have a single operation which will come to an end at a certain time in the future is necessarily an impediment to having a funded debt?

A No, sir, it would mean that you would have to devise a special form of relationship perhaps.

Q And you could?

A A serially retirement form of debenture, I would think, would be the type of thing that would be adopted in a thing of this kind.

Q And you could retire them as you went along?

A Yes, that is what I had in mind when I said "serially".

Q And that is not an uncommon thing for an operation?

A No sir.

Q And would you say that, I will put it this way, assuming that for some reason known to itself, the Royalite Company is going to finance Madison's operation, if it did not control the shares of the Madison operation or the Madison Company, would you say that a sound practice would be to do its financing through a bond issue so that it would have priority over the other shareholders for the money which is put up?

A Well that involves all the problems raised by the question of trading on the equity and I do not know just what the result





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R.W. Hamilton,  
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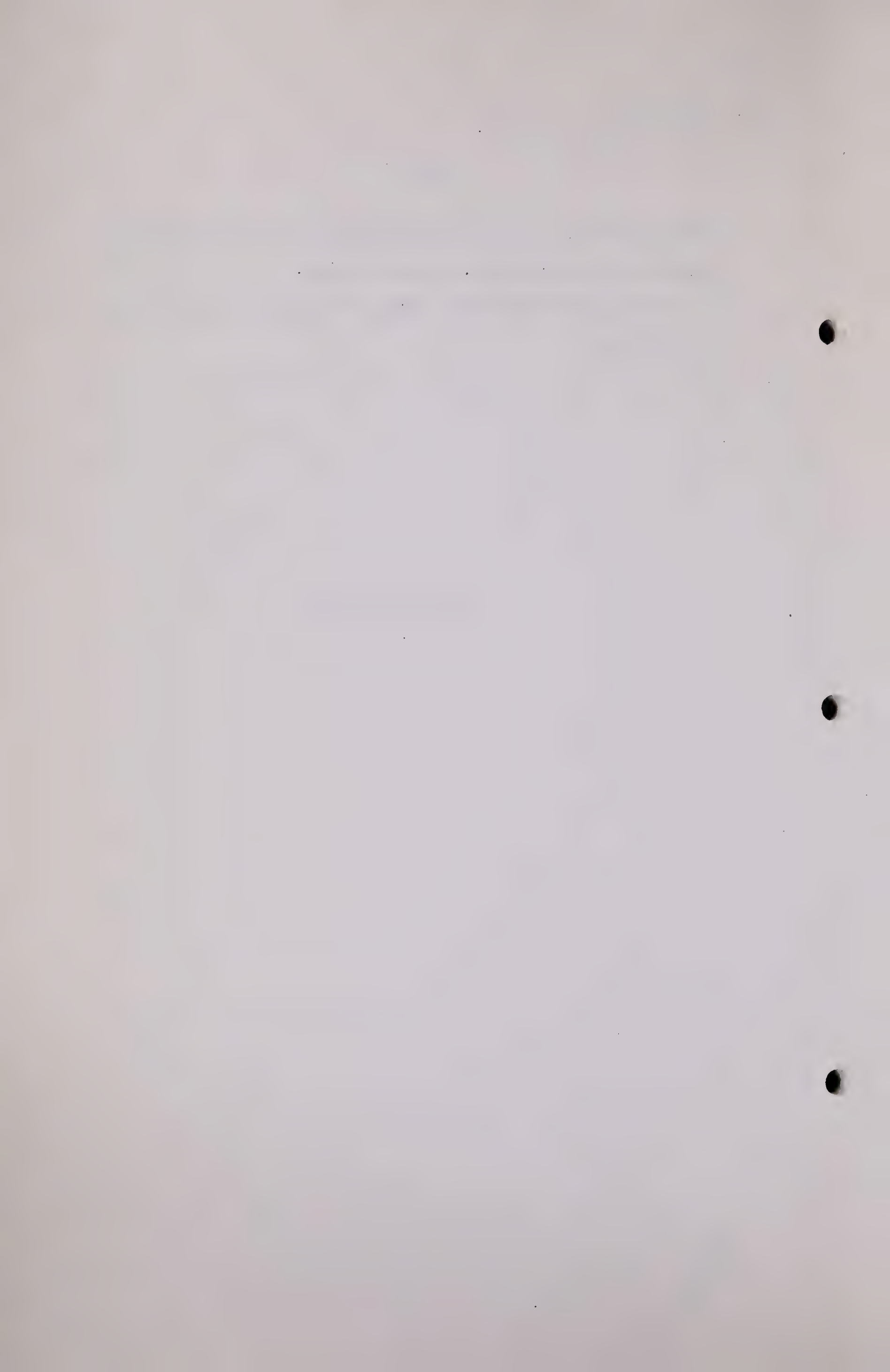
- 4846 -

would be but it would be a circumstance that they would  
certainly inquire into, I would think.

Q The holders of those bond issues do have priority in a  
winding up?

A Yes.

(Go to page 4847)



R. W. Hamilton,  
Cross-Exam. by Mr. Fenerty.

- 4846A-

Q In return of capital over common shareholders ?

A Yes sir.

Q And you have pointed out that this operation is being financed on the basis of common stock ?

A Yes sir in both cases.

Q And apparently with the idea of that being a high rate of return - that is a sufficiently high rate to take care of the normal rate plus income tax ?

MR. CHAMBERS: Is my learned friend suggesting that is the reason it was done this way.

MR. FENERTY: No I just want to put in the results.

A I can probably tell you the consequences but the reasoning is something else again.

Q MR. FENERTY: It did not occur to me that there was any reason for my friend to accept a higher return on common shares and debentures.

A They might accept a lower and because they save taxes on it in the hands of the Royalite Company, I do not know what their reasons would be.

Q But what I am trying to get at is in your opinion would a financial system involving debentures or bond issue for at least part of the investment be fair to both sides ?

A I think it would be good financing because you escape tax which you would otherwise pay.

Q And it would relieve the consumers of some of this burden of income tax ?

A And it relieves the Company whether the burden is one that they would shift or not I do not know.

Q And consequently the consumer ?

A I would expect so.





R. W. Hamilton,  
Cross-Exam. by Mr. Fenerty.

- 4847 -

Q But someone down the line may pay it. In that case, but that is another point.

A Perhaps I should make this clear that I think some financing on the part of the Company itself would induce it to so arrange its finances that it would attract the least possible attention, other things being equal, which way they would pass on the burden if it fell on them I do not know.

Q But you have pointed out in your report about the effects of the rate of return in the initial stages ?

A Yes sir.

Q Where the rate base has not been in review and it is particularly in the initial stages because of the high rate base, this system of financing entirely through common shares and as a result of the operation of the income tax does throw an extraordinarily heavy burden on the ultimate consumer.

A It throws a burden of tax on that company, whether it stays there or not I do not know.

Q But does if the principle is adopted of providing for a rate of return which includes income tax ?

A Yes sir.

Q It throws a heavy burden ?

A Yes sir.

Q On the ultimate consumer and the sound method in financing we have been discussing with you would relieve the consumer to a substantial degree ?

A I do not know sir. It would relieve the Company of taxes.

Q Relieve the Company and they would have passed on to the consumer, relieve the consumer ?

A Yes.

Q I am discussing this on the basis that we adopt the rate of

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| Circumstance                  | Justified (%) | Not justified (%) |
|-------------------------------|---------------|-------------------|
| If someone is attacking you   | 85            | 15                |
| If someone is threatening you | 75            | 25                |
| If someone is harassing you   | 65            | 35                |
| If someone is insulting you   | 45            | 55                |
| If someone is annoying you    | 15            | 85                |

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R. W. Hamilton,  
Cross-Exam. by Mr. Fenerty.

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return which includes income tax on the basis.

A I see.

Q Now I am going to suggest to you that assuming such a financial program is proper that it is also desirable that there should be some similarity between the financial setup of the company handling the gas up to the point where it is sold to the Canadian Western and the Canadian Western itself, which distributes that gas. My friend Mr. Chambers has pointed out too that the Canadian Western may have other fields to go to and as I understood it he seeks to distinguish the position of the Canadian Western from a Company of a single operation. Now you have told me in your opinion that single operation is not an answer to a setup on the basis of funded debt. Should there be some relationship between the financial setup of the company dealing with gas to one point and a company dealing with it from there on in order to get a proper picture as a whole ?

A I would say this that the Board is entitled to assume that the Company, or to assume for the Company, a form<sup>of capitalization</sup> which is reasonable in the circumstances and I think it would be proper for the Board to provide for rates of return and depreciation of tax on the basis of what appeared to it to be a reasonable capitalization plan of the Company. What the Company actually does in the way of capitalization seems to be a matter peculiar to it in which other parties have little to say.

Q Now do you remember when we were discussing working capital. This item of \$140,000.00 ?

A Yes sir.

Q And interest on working capital ?

A Yes sir.

Q I want to turn your attention for a moment to interest on the



R. W. Hamilton,  
Cross-Exam. by Mr. Fenerty.

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rate basis which as I understand will continue for a certain length of time at a fixed rate on the original rate base ?

A Yes sir.

Q Perhaps we will say for a period of five years ?

A More or less.

Q Yes, and then that results in a surplus, a fund in excess of the actual amount required for interest because of the reduction in the base from time to time, does it not ?

A In the first five years.

Q Yes. Well what I am getting at is you are going to have a fund of money which at some time if your practice has been followed will be applied in the reduction of the base ?

A I think perhaps what we are...

Q Just excuse me for a moment.

THE CHAIRMAN: We will take our adjournment now, Mr. Fenerty and you can have the opportunity of looking into that matter.

(At this stage a short adjournment was taken)

Q MR. FENERTY: I will abandon the last question and ask you one more question. You have in your report and in the various statements discussed pure interest rates, 3% and excess return as an additional return because of risk ?

A Yes sir.

Q Now if the principle providing for a rate of return which includes income tax is adopted, that is a rate to the Company which will provide for its income tax ?

A Yes sir.

Q Do you think any distinction should be made between the rate we will say of 3%, the pure interest rate, and the additional





R. W. Hamilton,  
Cross-Exam. by Mr. Fenerty.

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rate so far as income tax is concerned if you are going to allow a Company first of all interest because of risk, it is something I associate in my mind with ordinary business enterprise. Do you think that additional rate should also take care of income tax on it ?

A My view, Mr. Fenerty, is that the Board should set a gross rate of return leaving it to the Company to escape such taxation as it may escape.

Q But in computing that rate in figuring out what the gross rate will be, should the Board consider income tax based on the 3% rate or on some part of the risk as well.

A I think the first point is this, Mr. Fenerty, that the Board should for practical reasons setting a gross rate out of which the Company pays such tax as it has to pay from time to time, that in fixing that gross rate the Board would have in mind such a basis of capitalization and such an apportionment in its own mind as between the risk return and the pure interest returns as would allow to the Company such a proportion of the income tax which it felt the Company should not have to pay. Having done so you arrive at a fixed rate of return out of which the Company pays certain taxes which are more in its control than in the control of the Board.

Q I see. At least I do not know whether I see but I hear. Would you say that it would be proper to calculate pure interest in the first instance?

A Yes sir.

Q Then figure income tax on that ?

A I think the Board has got to take into account that income tax will be exigible on the pure interest and also on the risk proportion. But only on the basis of such proportion of the





R. W. Hamilton,  
Cross-Exam. by Mr. Fenerty.  
Cross-Exam. by Mr. Harvie.

- 4851 -

overall capital that is required, that is financed by share issues.

Oh yes I understand that.

A In other words the question of income tax does not enter the picture at all if the funds for either pure interest or risk furnished by bond issue.

Q That is the answer. You would not make any distinction therefore?

A I think the distinction is between the form in which the money is provided rather than as between the elements of the returns, but I think you have to go one step further in predicting what rate would be necessary to attract funds on a bond basis by realizing that in the present day rate the high personal income tax, capital usually abhors risk because if they win a substantial part of their excess interest is taxed away from them, but if they lose they bear the loss themselves.

Q All right. Thank you.

CROSS-EXAMINED BY MR. HARVIE:

Q Mr. Hamilton, I believe you agree with my learned friend Mr. Steer that the residue gas down stream absorption plant was an entirely different product than wet gas which was produced in the well ?

A It is a different product, yes.

Q And I think on the basis of assumption that he asked you to assume that there might be some circumstances under which all gathering costs of wet gas should be paid by the absorption plant. I think you agreed with him that there might be a situation where that would be proper ?

A Yes sir.

Q Now I am going to refer you to section 72-1(b) of the Natural



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Cross-Exam. by Mr. Harvie.

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Gas Utilities Act which I will read:

"Notwithstanding the terms of any contract the Board may and by order of the Lieutenant Governor in Council; shall fix and determine the just and reasonable price or prices to be paid for natural gas which has been gathered and delivered to an absorption plant and after it has been subjected to treating or processing by absorption or otherwise for the extraction therefrom of natural gasoline or other hydro-carbons."

Now assume that the Board did in its wisdom say that all gathering charges should be charged to the absorption plant operation, would you think that those charges would be a proper item to include in or give consideration to in setting the price downstream absorption plant under that section of the Act.

A I could conceive a circumstance under which it might be done in that way with propriety.

Q You see is it not a fact that if they adopt the principle that the absorption plant pays all costs to that time of gathering that they must give consideration to those costs in setting a price down stream absorption plant ?

A I am sorry sir. I am not sure that I follow you.

Q If the Board should decide that all costs of gas gathering to the absorption plant should be paid for by the absorption plant ?

A Yes sir.

Q Then it is required to set a price downstream absorption plant for the residue dry gas ?

A Yes sir.

Q My question is this, is not the gathering cost that is paid an



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R. W. Hamilton,  
Cross-Exam. by Mr. Harvie.

- 4853 -

item that should be given consideration to by the Board in setting that price down stream absorption plant for the residue gas ?

- A Oh I think it could be done this way. You say the total gathering cost. I am asked to assume those are charged to the absorption plant. Then the residue gas downstream from the absorption plant is worth what is to be paid to the producer without any additional cost for transporting it to that point.

THE CHAIRMAN: The well head price and the price the absorption plant obtains.

- A Yes sir and to follow it through, it can be worked out on this basis that the absorption plant having paid the whole of the gathering cost can charge the whole of that gathering cost proportionately to the producer so that he has in effect delivered hydro-carbons f.o.b. absorption plant and he has delivered residue gas f.o.b. downstream from the absorption plant.

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The first part of the paper is devoted to a discussion of the general principles of the theory of the structure of the atom. It is shown that the structure of the atom is determined by the laws of quantum mechanics, and that the laws of quantum mechanics are derived from the principles of the theory of the structure of the atom. The second part of the paper is devoted to a discussion of the application of the theory of the structure of the atom to the study of the properties of matter. It is shown that the theory of the structure of the atom can be used to study the properties of matter, and that the properties of matter can be used to study the theory of the structure of the atom. The third part of the paper is devoted to a discussion of the application of the theory of the structure of the atom to the study of the properties of the universe. It is shown that the theory of the structure of the atom can be used to study the properties of the universe, and that the properties of the universe can be used to study the theory of the structure of the atom.

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Cross-Exam. by Mr. Harvie.

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Q MR. HARVIE: And those items would be a proper charge to give consideration to in the down-stream price set by the Board?

A It could be. It is a matter of mechanics more than anything else.

Q Assuming that an absorption plant operating in the field is operating at a pressure that requires no compression for the gathering for the wet gas, we will say, take the B.A. situation where it is gathering gas at the well head at 170 to 175 pounds, and delivering it to the absorption plant which operates at about 150 pounds. If the absorption plant operation could reduce its operating pressure and thereby treat the same amount of gas as it would if there was a low pressure station, is there any reason why it should be asked to pay any of the cost of the low pressure station?

A I am trying to follow you, Mr. Harvie. Do I interpret the force of your question to be this, that if compression is applied solely for the benefit of the residue market?

Q Yes.

A Then it is proper that the residue market should pay for the compression?

Q Yes?

A Well, if compression is applied solely for the purpose of delivering residue gas and is no concern to the absorption plant, and the absorption plant derives no benefit whatever from the compression applied, then I think your proposition is sound.

Q Supposing there is a benefit derived particularly by the consumers of the residue gas - I should say, supposing there is benefit derived partly by the consumers of the residue gas and partly by the absorption plant, would it be a fair principle to make



R.W.Hamilton,  
Cross-Exam.by Mr. Harvie.

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an allocation of those charges between the two?

A Yes sir.

Q THE CHAIRMAN: How are you going to evaluate the benefit?

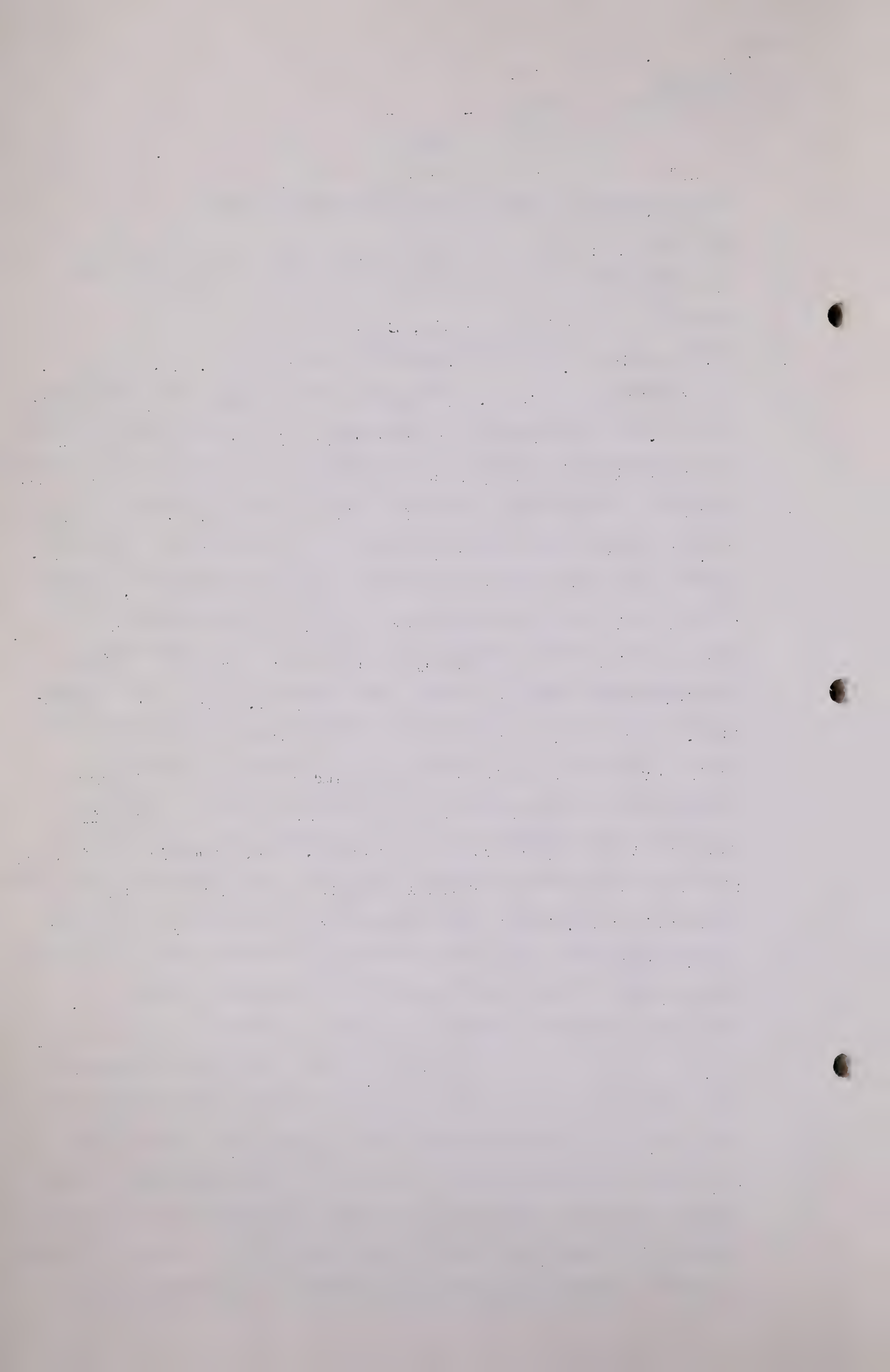
A Purely on an arbitrary basis, Sir.

Q MR. HARVIE: Just one other point, Mr. Hamilton, and I will be through. I mentioned to you yesterday a question that Mr. Donellan asked me to ascertain with regard to the Girbotol royalty. I wonder if you could give us the information on that?

A I have here a memorandum dealing with the question. The point raised has to do with the question of prepaid Girbotol royalty. If you will recall in the case of the Madison Company, there had been paid by the predecessor owners, the Royalite company, a substantial amount of money under contract with the Girdler people, I think the name of the Company is, for prepaid royalties. Now then, that means that the Madison Company are taking over the benefits of that contract ought to reimburse or should now reimburse the parent company for the unexpired value of that prepaid royalty contract. That sum will ultimately find its way into the operating costs of the Madison Company by amortization, but in the meantime if Madison paid to Royalite the unexpired value there would be a substantial amount of additional capital required in order to finance the payment.

So that we have the two circumstances. One, the fact that the prepaid royalty finds itself, finds its way into the operating costs over the next few years, and, secondly, in the meantime it seems to me as reasonable that the company should be entitled to the rate of return on the prepaid value in the same way that they are entitled to a rate of return on working capital, because it increases the working capital





R. W. Hamilton,  
Cross-Exam. by Mr. Harvie.  
Cross-Exam. by Mr. McDonald.

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requirement in a sense. The question arises as to whether the situation is similar in the case of the British American Company. We were not aware<sup>at</sup> the time of the preparation of our original submissions that there was to be a prepaid Girbotol royalty in the case of the British American Company. And if there is to be such a contract and such a prepayment of a significant amount, then, for consistency in treatment, such a prepaid royalty should be entitled to a rate of return on the unamortized balance from time to time.

Q That is all.

THE CHAIRMAN: Mr. McDonald?

.....

CROSS-EXAMINATION BY MR. McDONALD

Q I was just thinking, Mr. Hamilton, you referred to the word "arbitrary", the Board will make an arbitrary decision. What you really mean is that the Board will exercise its judgment?

A Yes.

Q On what we would call a judgment figure?

A Yes sir.

Q And in arriving at its judgment it will take into account anything that is relevant to the allocation of costs, for instance, this absorption plant and the marketing, the allocation of costs between the absorption plant and the marketing?

A Yes sir.

Q And that involves a consideration of the historical facts?

A Yes sir.

Q Concerning the erection of the absorption plant and the use to which it has been put?

A Yes sir.





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Cross-Exam. by Mr. McDonald.

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Q And the consumer's interest in the market for some years back?

A Yes sir.

Q Now you referred to, under Mr. Steer's examination, you referred to certain gas being waste product?

A I assumed it at his request.

Q You assumed it at his request?

A Yes sir.

Q I see. Well, do you agree with my submission to you that where regulation enters into the production of any product whereby it is presumed to be available for the market, it then is given a value because of the fact it is marketable?

A I think first of all we must be careful what we mean by waste, and secondly, what we mean by value.

Q Well, the presumption is that you would not regulate anything not of value?

A That is correct.

Q And it may have, I do not like the use of the word "intrinsic", it is a commodity that is in existence prior to regulation?

A Perhaps a potential value as distinct from immediate value.

Q Yes, but by regulation it becomes marketable, then it has a market value?

A Some of it has, yes sir.

Q Some of it has?

A Yes.

Q But regulation it has been given a market value, the gas has been given a market value?

A Yes.

Q Now, if by virtue of regulation the costs are fixed or charges made against that product so that the producer receives no benefit from the market, does that not involve confiscation



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of that marketable value that had been created?

A It might not involve it. It might involve it, but it does not necessarily involve it.

Q Well if the producer receives nothing for his product it would be confiscation, would it not?

A I think I said yesterday or today that the minimum position was, in my view, that the producer would have to receive a plus amount. That is, he must get more for the gas that he delivers to the market than the costs that are assessed against him for the whole price, for repressuring, or gathering, or whatever it might be, that he should get a plus amount.

Q In other words, something which he possesses a value in has been confiscated?

A Yes sir.

Q And I think you will agree with me that confiscation is abhorrent to our ideas of natural justice?

A Yes sir, without compensation.

Q Without compensation?

A Yes. But I do think that you have to look at the whole supply of gas coming from a particular producer rather than to a part of it. In other words, if some of the gas is moving to market and some of it is being restored to the formation, I think you have to examine the producer's position as to the total delivery of the gas to be made.

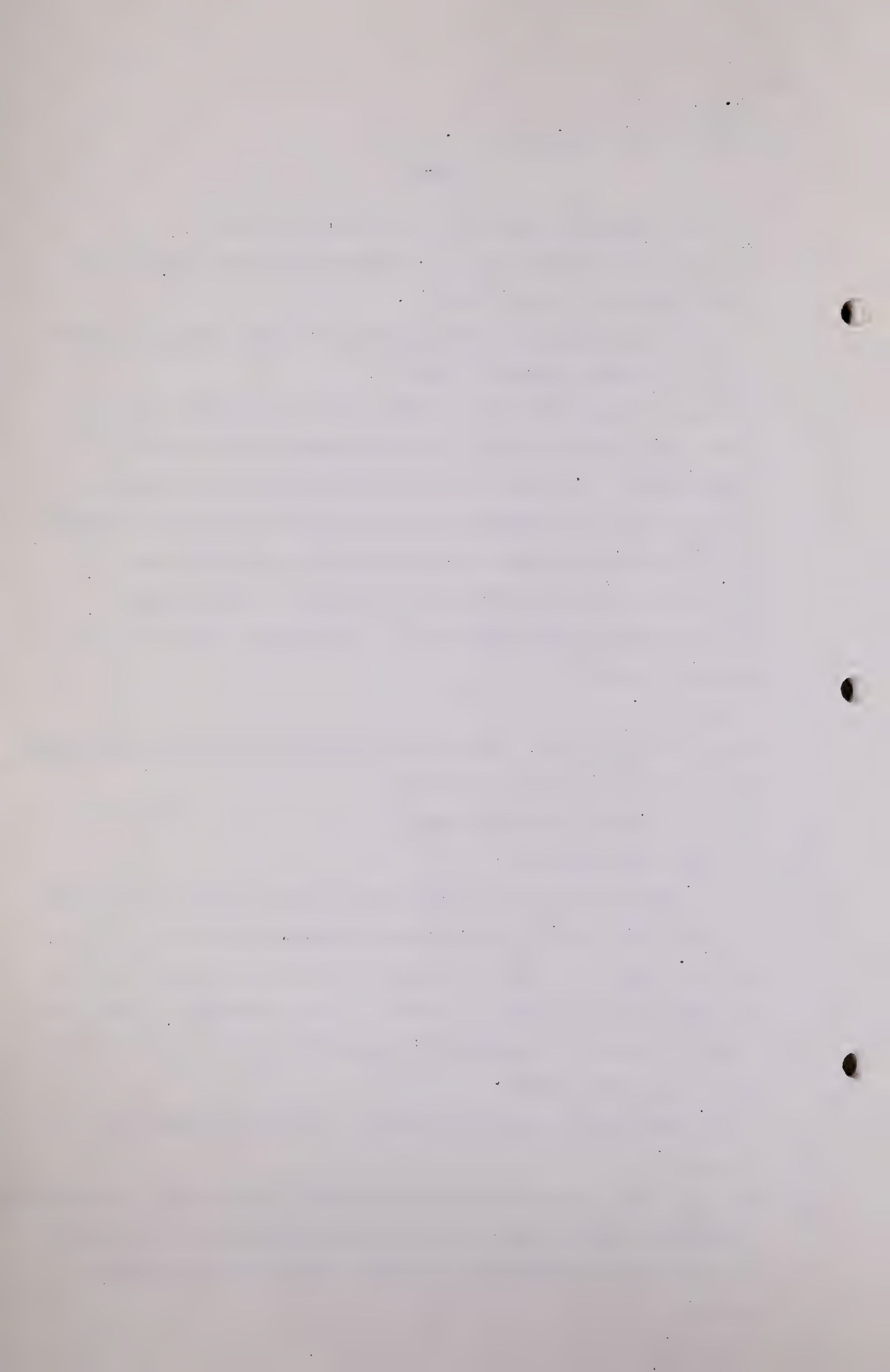
Q Yes. That involves then the question of repressuring costs?

A Yes sir.

Q Now as I understand your calculations on rateable gas, particularly involving repressuring, you have done your rating on the basis of horsepower required to move the gas and the volumetric basis?

A Yes sir.





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Q And following the lines of the Madison submission and the British American submission?

A The Madison only. The British American is based on volume.

Q Now, did you give any consideration subsequently to Mr. Zinder's proposal that repressuring costs be allocated on a demand and volumetric basis, or on the theory that the.....

A I must confess that I had only a quick perusal of it, but I did not follow it very clearly and I have no views on it as yet.

Q You have no views on it as yet?

A No.

Q In your answers to Mr. Chambers yesterday in regard to repressuring costs, you referred to the beneficiaries as being the producers, the absorption plant, Royalite, Canadian Western and the consumer. Now I was interested in the fact that you included Royalite. What did you have in mind?

A I was thinking of Royalite in particular as being the possible purchaser of the gas in the event of that being the situation.

Q Yes?

A Also in connection with the Bow Island storage, taking into account that Royalite was in fact a partner of the Canadian Western with regard to the gas that went to Bow Island.

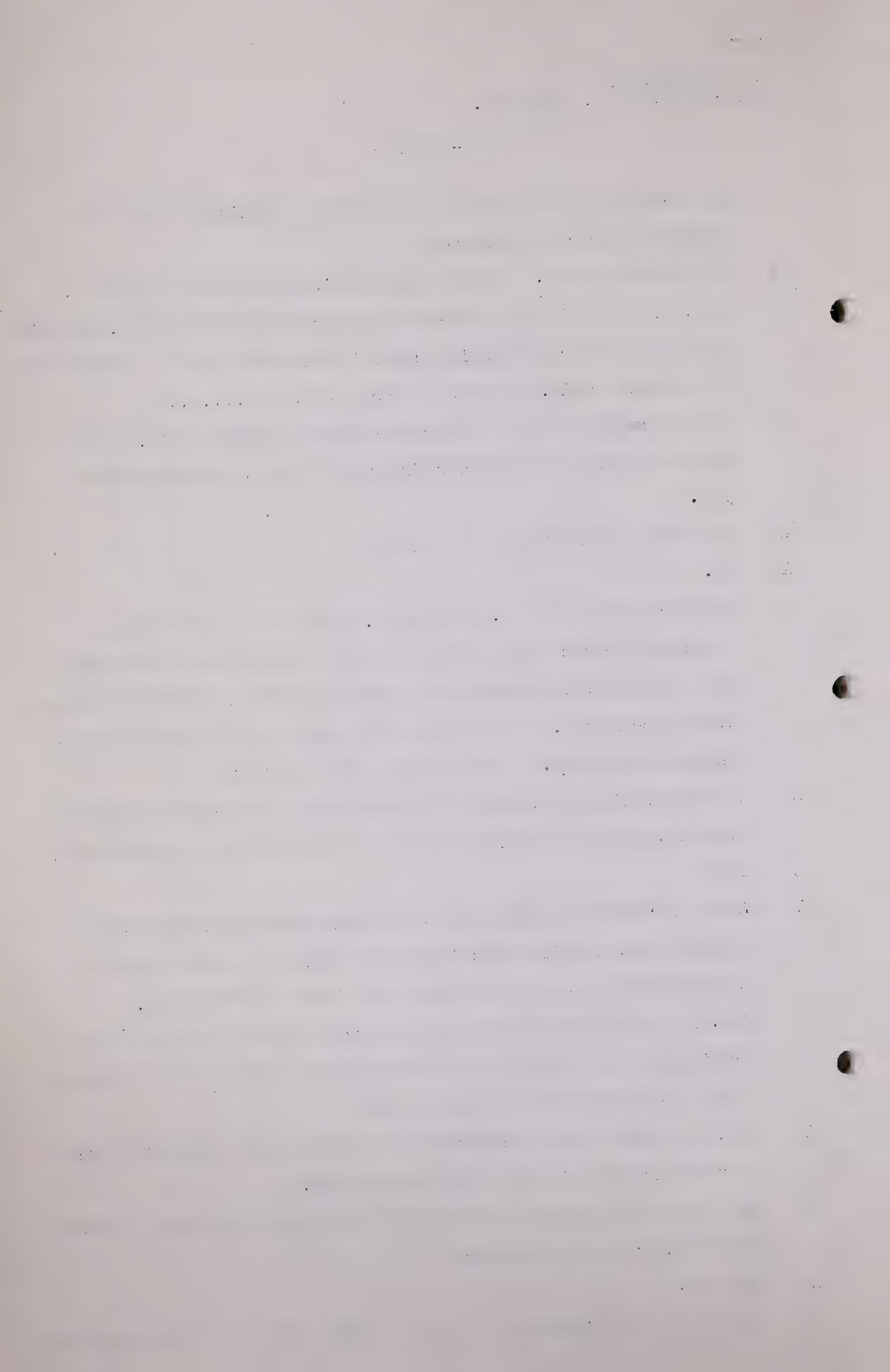
Q Yes. I gathered that you referred to Royalite in view of the submission that Royalite has already made in regard to dealing with repressured and conserved gas?

A Yes, and also in particular with regard to the connection with Canadian Western in the Bow Island field.

Q And when you referred to Canadian Western did you have in mind the Bow Island arrangement?

A Yes sir.

Q You did not go further and have in mind that the shareholder of





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the Canadian Western should make a contribution towards repressuring apart from their interests of representative of the consumers?

A Well, the Canadian Western enters into the picture qua Canadian Western and also qua consumers. And I think as far as I have gotten what you say that Canadian Western might under certain conditions, might be expected to make a contribution, and what they can do with the contribution in their accounts, whether they could pass it on to somebody else or not, is another matter.

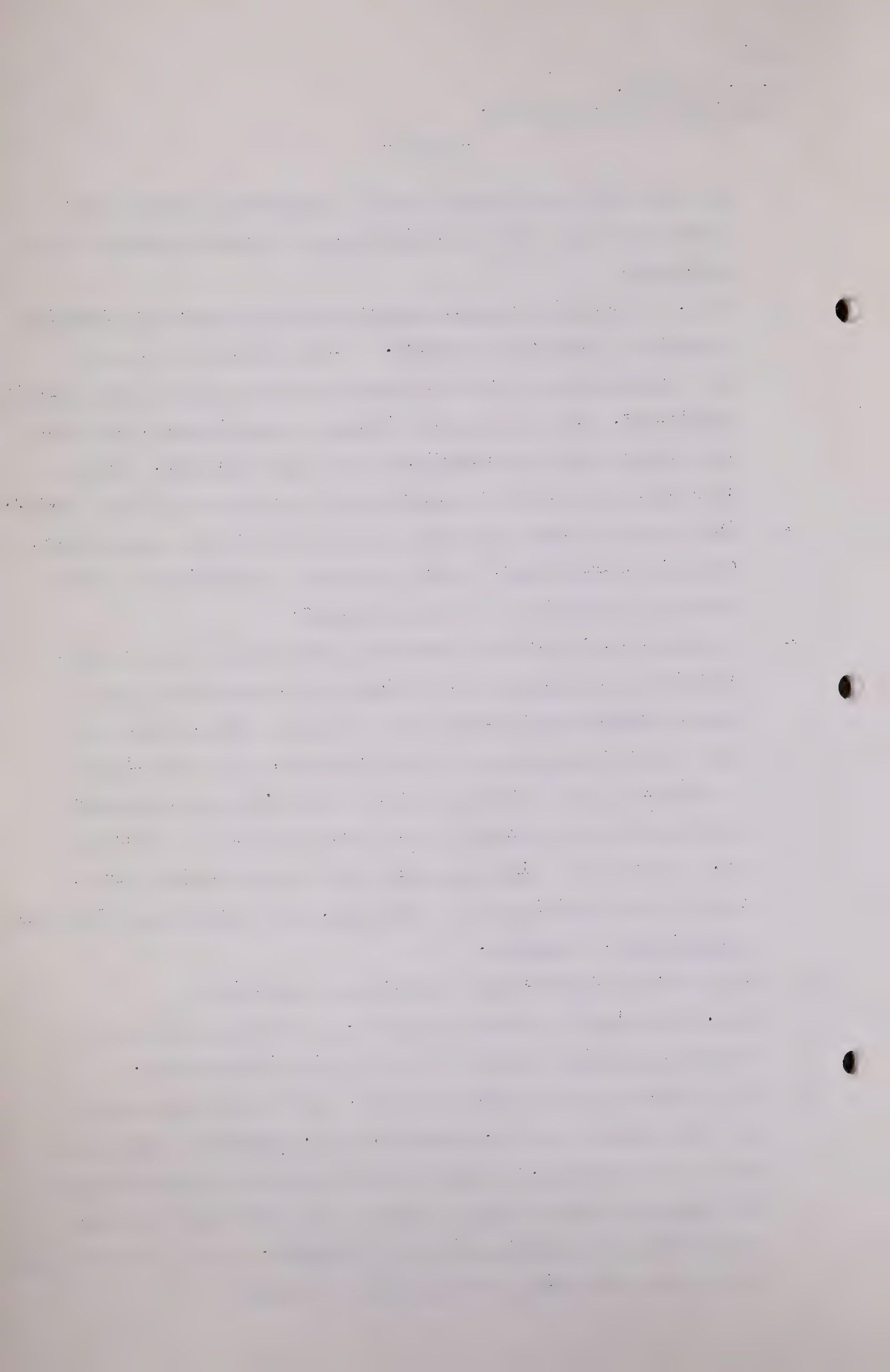
Q And had you in mind that the Canadian Western as a corporation, or their shareholders, would be making a contribution which would not be passed on to the consumers?

A I was not quite sure what would be passed on or when, I might conceive a situation where the Canadian Western could make a present contribution to the cost of repressuring, which they could pass on immediately to the consumer, and there might be a situation where Canadian Western was making a contribution which would not be allowed at the present time to be passed on. And I had in mind especially with regard to Bow Island, where it was building up an inventory, which it will be ultimately disposing of, I suppose.

Q And where it might charge the consumer something?

A Yes. That might be charged later on. I thought that was beyond my province as far as this Hearing is concerned.

Q What brought it to my mind was this, in the previous approach to this problem that Mr. Weymouth, - Mr. Weymouth's Report is filed as an exhibit, - he made an allocation of benefits against the Canadian Western Company itself. He also make a further allocation of benefits against the consumer. And I was wondering if you were following the same line of thought?



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A I had not got so far as that, but I can see where there might be a passing on immediately to the consumer of the whole of the contribution, or there might be a passing on a part now with the rest treated as an accumulating investment to be amortized at a later time.

Q Now, if you will turn to page 25 of Volume 2, Mr. Hamilton, you rated as I understand it, dealing with the second paragraph, in your Statement W-H-41, you rated or you applied the volume, one-half of the volume of gas stored as being added to the total gas on which you would calculate the costs of gathering?

A Yes sir.

Q The other half you called non-rated?

A Yes sir.

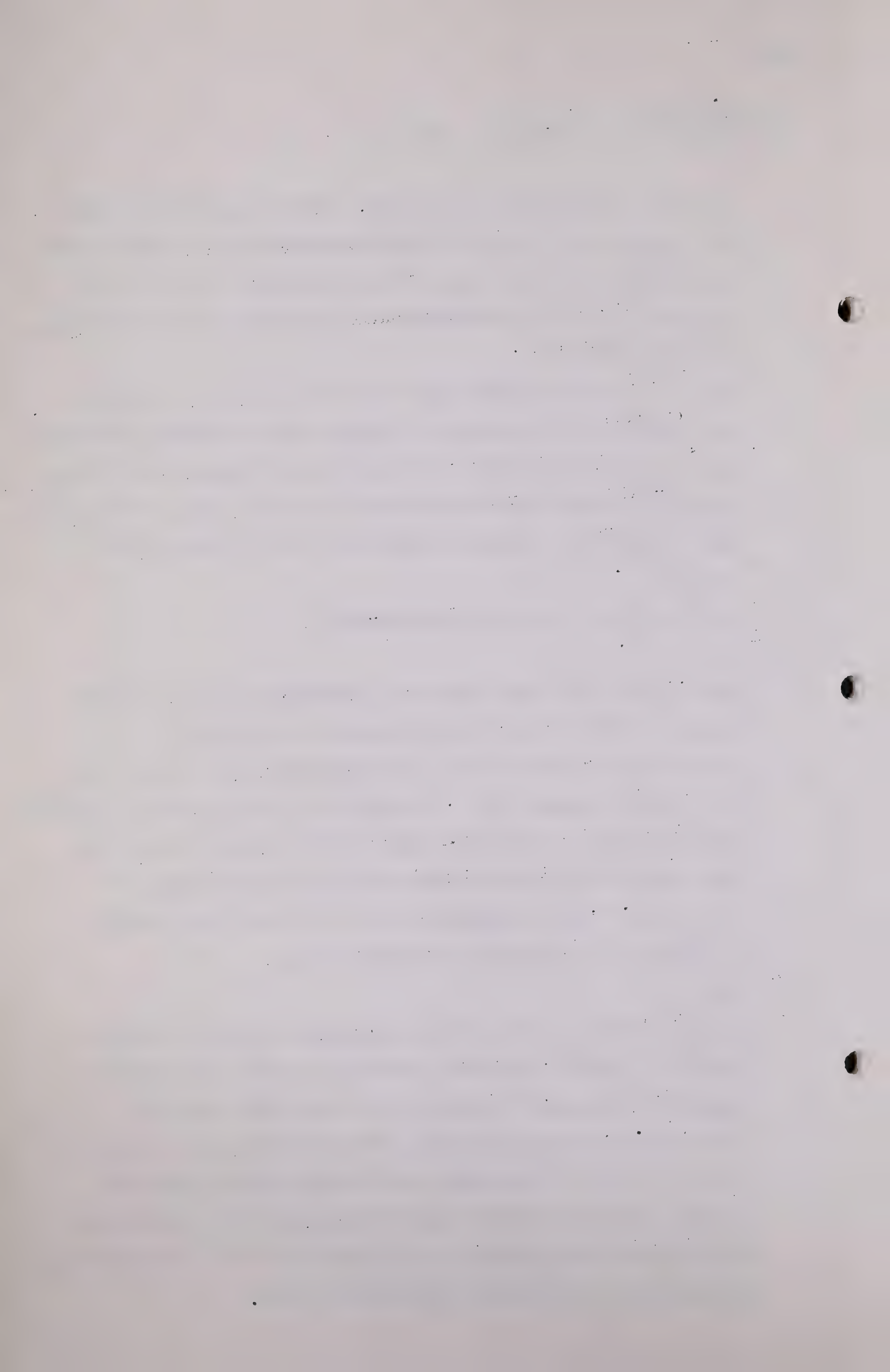
Q Now, did you carry that calculation through to arrive at the figure of \$177,000.00 which you mention on page 54?

A I am not sure whether I have your question, but I think this will probably answer it. On page 54 we show a combined average cost to market gas at 5.19 cents per MCF, which, related to total sales of 12 million MCF would produce an amount of \$646,000.00, that is supposed to be the amount that would be collected by consumers of residue gas.

Q Yes?

A In addition to that there is a contribution coming from the absorption plant, from both absorption plants, for services rendered to them. And in addition to that this amount of \$177,100.00, to which you have just referred, would be the sum of the cost of gathering and transmitting of gas which is to be repressured in Turner Valley, and the gathering and transmitting and scrubbing of gas which is to be repressured in Bow Island or delivered to Bow Island town.





T-2-1 11.45 A.M.

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Q Yes.

A Somebody besides that has to pay for the cost of repressuring.

Q Yes. Well now, have you any quick way of telling me how much that . . . . what the value of that gas would be having relation to the 12 billion marketed.

A How much gas would go to Bow Island?

Q Yes, how much gas . . . . What I am trying to work out is the unit cost of gathering, transmitting and scrubbing of non-market gas on this calculation you have made.

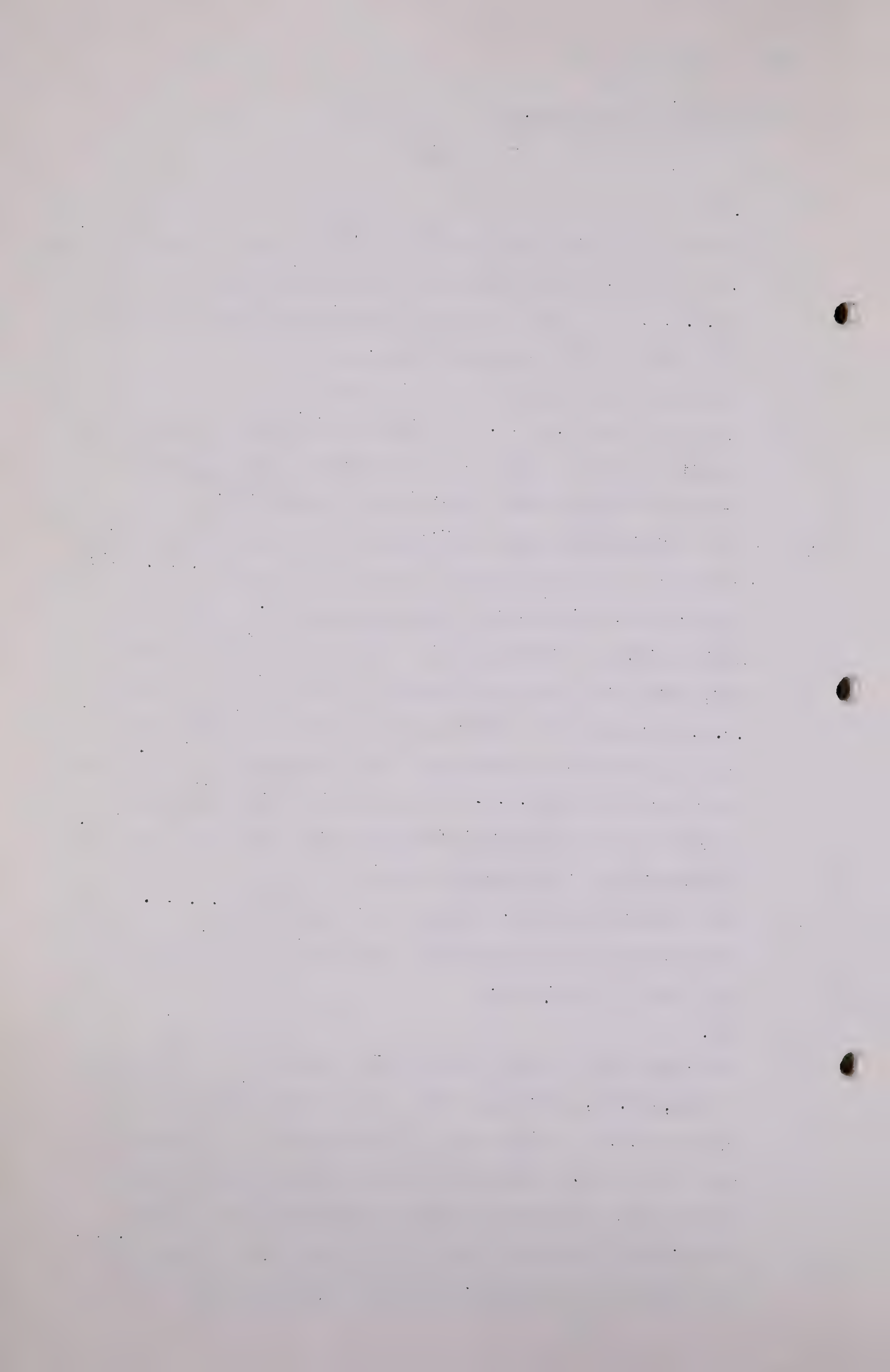
A It is anticipated that the five year total of Turner Valley repressuring would amount to close to 10 million m.c.f. which runs around  $2\frac{1}{2}$  million a year for four years. There was none in 1944.  $2\frac{1}{2}$  million per year would be discounted one-half, that would be approximately a million and a quarter m.c.f. per year on a rateable basis and the gathering cost - I am speaking now of Madison - the gathering cost is 2.748 cents per rateable m.c.f. So you would have approximately a million and a quarter at the  $2\frac{3}{4}$  cents price for gathering.

Q What about the repressuring costs?

A That is Turner Valley. Would you care to have . . . . Well I suppose the next thing is to get the repressuring cost of that gas to Bow Island.

Q Yes.

A The repressuring cost on basis C-2 as shown on WH 52 would be \$56,437.72, which you could add to the million and a quarter m.c.f. at  $2\frac{3}{4}$  cents and that would put it back in the ground now. That would gather it and put it back in the ground. Now with regard to Bow Island storage, the anticipated deliveries are on the order of a million m.c.f. per year for four years, which would be rated down to one-





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half, or half a million m.c.f. at  $2\frac{3}{4}$  cents gathering costs and slightly less than 2 cents scrubbing costs.

Q Have you the total figure on that, the cost to Bow Island?

A No, sir.

Q 2 cents scrubbing.

A And  $2\frac{3}{4}$  cents gathering on a total footage of a million m.c.f. discounted to half a million.

Q If the cost of gathering, transmitting and scrubbing of this non-market gas was charged entirely to the consumer and apportioned over the marketed gas of 12,433,600 m.c.f., the cost per m.c.f. to the consumer would be, I have calculated it out, .14 cents.

A My recollection is it was slightly higher than that. Where did you get the 12 million m.c.f. figure?

Q From your page 54.

A Page 54?

Q Yes, page 54, Volume II.

A Yes. That is a five year average though and incidentally the costs we have been talking of here are four year averages. I think it is slightly higher.

Q For purposes of illustration it would be somewhere in that neighbourhood?

A My recollection is that is about right, yes.

Q Whereas the investment by these unspecified beneficiaries, if they were to pay the cost, would be 2.75 cents insofar as Madison is concerned, on the basis of one-half being rateable.

A Yes, sir.

Q Now if the whole of the gas was rateable it would be one-half of 2.75 cents. If the whole of the gas was charged.

A No sir, I do not follow you there. This 2.74 cents average



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gathering price for Madison gas is on the basis of rating down only part of the gas, which is the non-market gas. If you rated that back up, you certainly would not double the operating costs per unit.

Q To give us a figure we would have to recalculate the whole table?

A Yes, sir.

Q The whole table would have to be recalculated?

A Yes, sir.

Q To the 2.75 cents we add the actual cost of compressing and repressuring?

A Yes, sir.

Q Now dealing with fuel costs, I think it is on page 27 of your Volume II of your Exhibit 124. I take it the suggestion you make here is that fuel gas used by the different plants should be priced and if it was priced at 2 cents on the assumed volumes you have taken, the producer would get an additional revenue to the value of \$23,553.86.

A From the Madison Company and a further amount of approximately \$1000 from the other company.

Q Now that gas is used not only to operate the scrubbing plant but to also operate the service units which provide power?

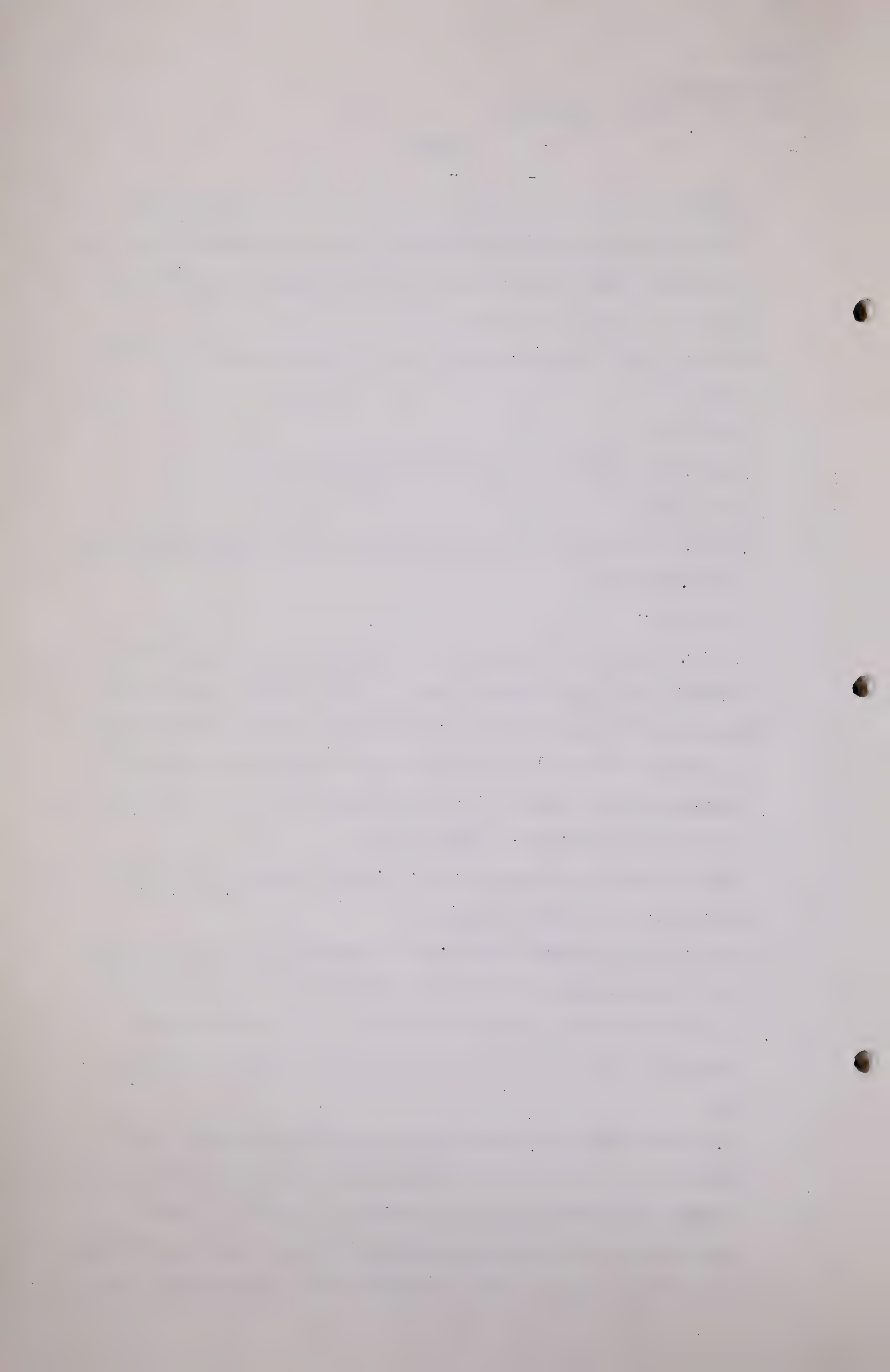
A At least they are largely concerned, if my recollection serves me, with the boiler plant and the electric plant.

Q Yes.

A The power which is generated very largely going to other companies to the extent, I think, of about three-quarters.

Q I think it is 75% is the allocation. I take it your suggestion is that that donation by the producer indirectly made, if fuel gas is not paid for is not justifiable on a





R. W. Hamilton,  
Cross-Exam. by Mr. McDonald.

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service basis.

A My principle purpose in the preparation of statement WH 44 and the comments which you have now related was to show what would happen if you did pay for fuel gas, without at the moment making any particular recommendation. I am rather inclined to the view that in the over-all result it is desirable to pay for fuel gas.

Q Because by paying for the fuel gas, a fair allocation of cost is made to the parties who receive these services?

A That is correct. Also it perhaps might lead to more economical use of fuel, of gas as fuel, I should say.

Q Now if the producer should forego his revenue, that is the \$23,000, is not paid to the producer on this basis but the proportion of the gas used in the service plants which will service outsiders but not in the regulated industry is taken in as revenue, it has the net result of reducing the cost as between the producer and the consumer.

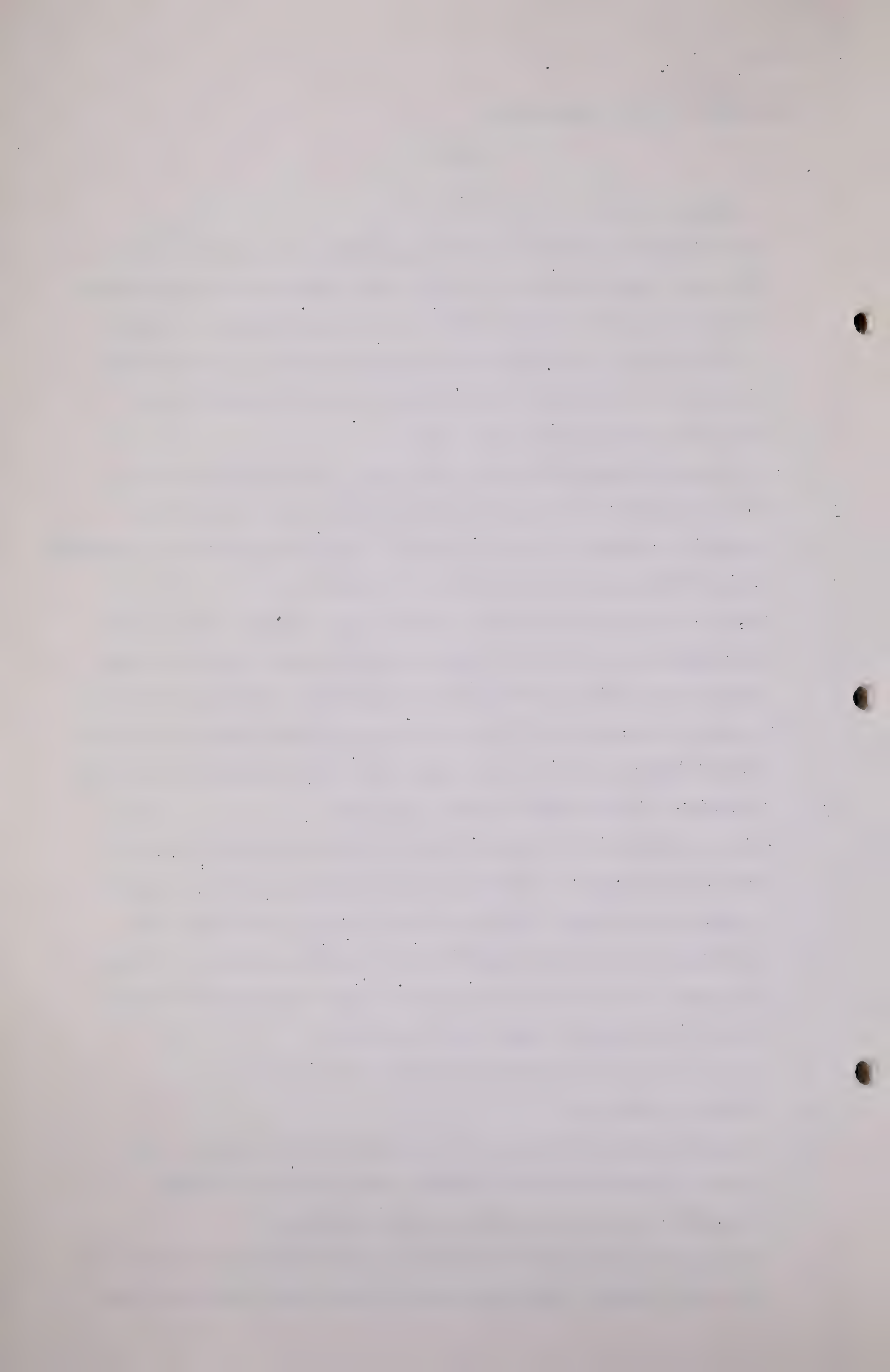
A Yes, sir, free fuel means that the operating costs to the Madison Company are reduced, that is assuming the two cents price, by \$10,000. Now the fact that the producer, qua producer, is a contributor to the operating cost of Madison as such, in which case his actual cost through furnishing fuel free would be less than \$10,000.

Q I mean it is a contribution by the producer?

A That is correct.

Q Not only does he donate the gas but if that gas is sold there is an additional revenue obtained from it which increases his contribution by that amount.

A Yes, sir. Not by that amount, no. It increases it but not by that amount. Just to make it clear. The producer would





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receive, if the fuel were paid for at a rate of 2 cents, he would receive \$23,533. But \$13,000 of that is charged to the absorption plant which will increase the cost of the absorption plant and might result in the producer receiving less for his absorption plant product than he otherwise would. In addition to that, the producer might have to pay some portion of the general Madison cost caused by an increase in the cost through paying for the fuel.

Q THE CHAIRMAN: Is not the whole answer, Mr. Hamilton, that by charging the fuel gas you get a true picture at the end of the year?

A Yes, sir.

Q Like the Legislature. It gives me a certain amount of money to run my department. The Government owns the telephone system. I have telephones and I pay my telephone bill. In other words, the Government takes the money out of one pocket and puts it in the other, but at the end of the year you know the true position as between those two departments.

A Yes, sir.

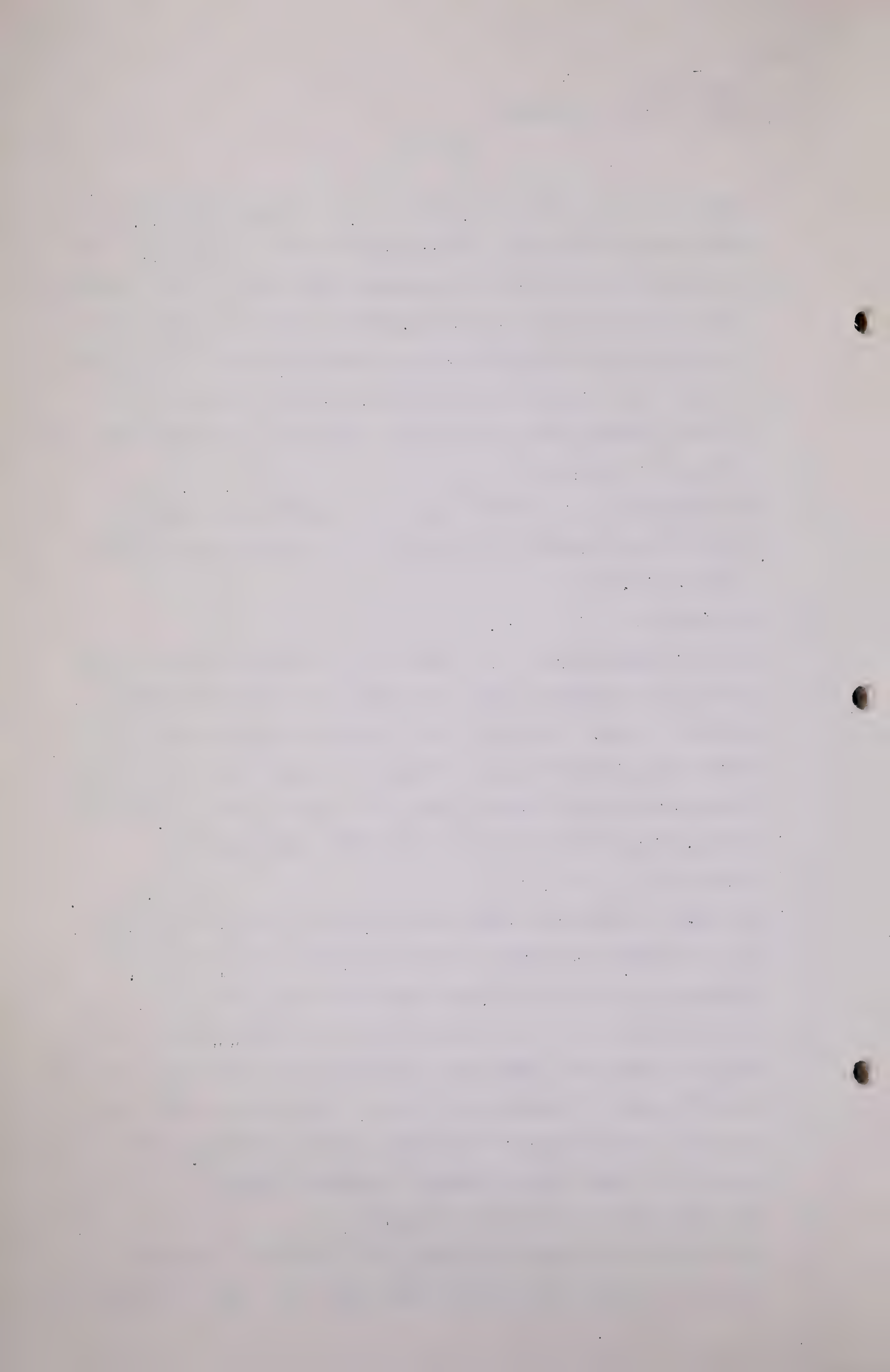
Q And that, surely, is very desirable in a regulated company.

A Yes, providing the cost of making the proportionment is not excessive in relation to the amount of money involved.

Q MR. McDONALD: Mr. Fenerty was discussing with you the matter of the cost approach to ascertaining prices at the well head for gas. I gather your idea of the thing is the cost approach is just one of the tests, one of the things that should be looked at in forming a judgment figure.

A Yes, it is a test of reasonableness.

Q Dealing with the rate of return, Mr. Hamilton, you have tables where you set out the pure interest. That is table 26.



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Cross-Exam. by Mr. McDonald.

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WH 26. Now what significance do you think we should take of your calculation within this Hearing? What significance should the Board attach to it? Now what I have in mind is this, I think it is a fine example of a theoretical calculation but I mean, what is the practical application of it? Where does it affect the risk?

A The purpose of it is, of each of these statements, is to show not what rate of return should be adopted but what effect a particular rate of return has upon the loss that would fall upon the company in the event of abandonment at the end of any particular time, and I believe the Board must come at some time to some conclusion as to what the risk is of abandonment at various stages throughout the predicated life of the industry. If you assume certain rates, then it follows from that that the company sustains a certain loss net if the failure occurs at the end of the fifth year and a certain loss at the end of the eighth year and so on.

Q The point about it, however, is, as I understand it, or one approach to fixing a rate of return is that the more risk the higher the return. The higher rate of return. Risk is the main element.

A Yes.

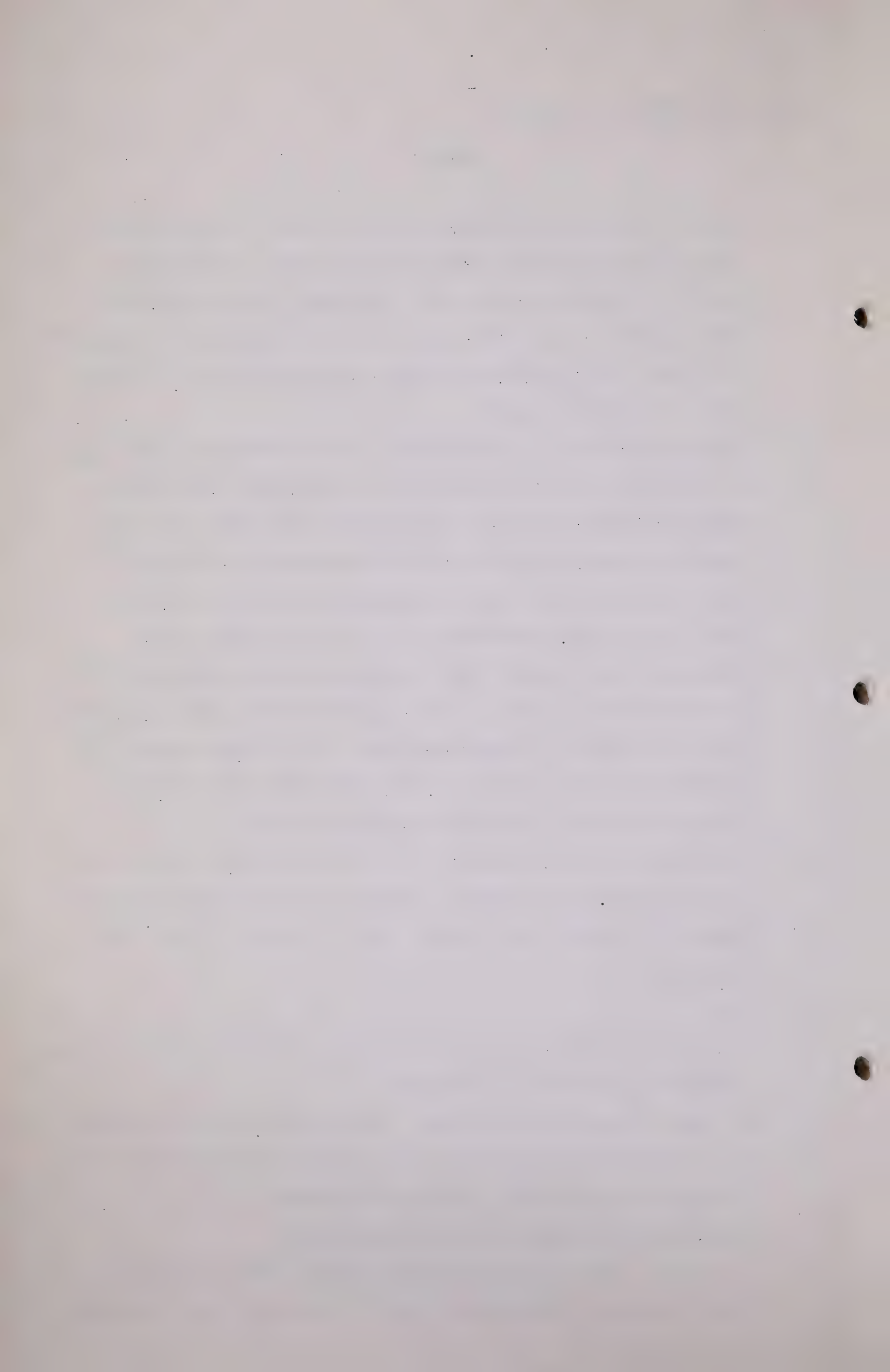
Q On the calculations you have made here, the higher the rate of return it appears the less risk.

A No, sir. There are two risks. First is the risk of abandonment and the second risk is that you want to keep enough in premiums to protect you against abandonment.

Q And you are illustrating the second risk?

A Yes, sir. There is the inherent physical risk of abandonment. There is the further risk on both sides, the consumer





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and the utility proprietor, that the actual rate of return that is allowed may be out of line with your projection of the physical hazard.

Q There is one other matter, you were discussing with Mr. Fenerty the matter of the funded debt method of financing either of these companies involved here, Madison and British American. We have evidence from Mr. Baker, I think he was fairly definite that in his opinion, as an investment banker, that the Madison operation could not be and is not the subject of a bond issue or a mortgage. In other words, it is not funded.

A With all deference to Mr. Baker, I think it could be done. I think I could find the money myself if I had to, not for all of it but for quite a part of it.

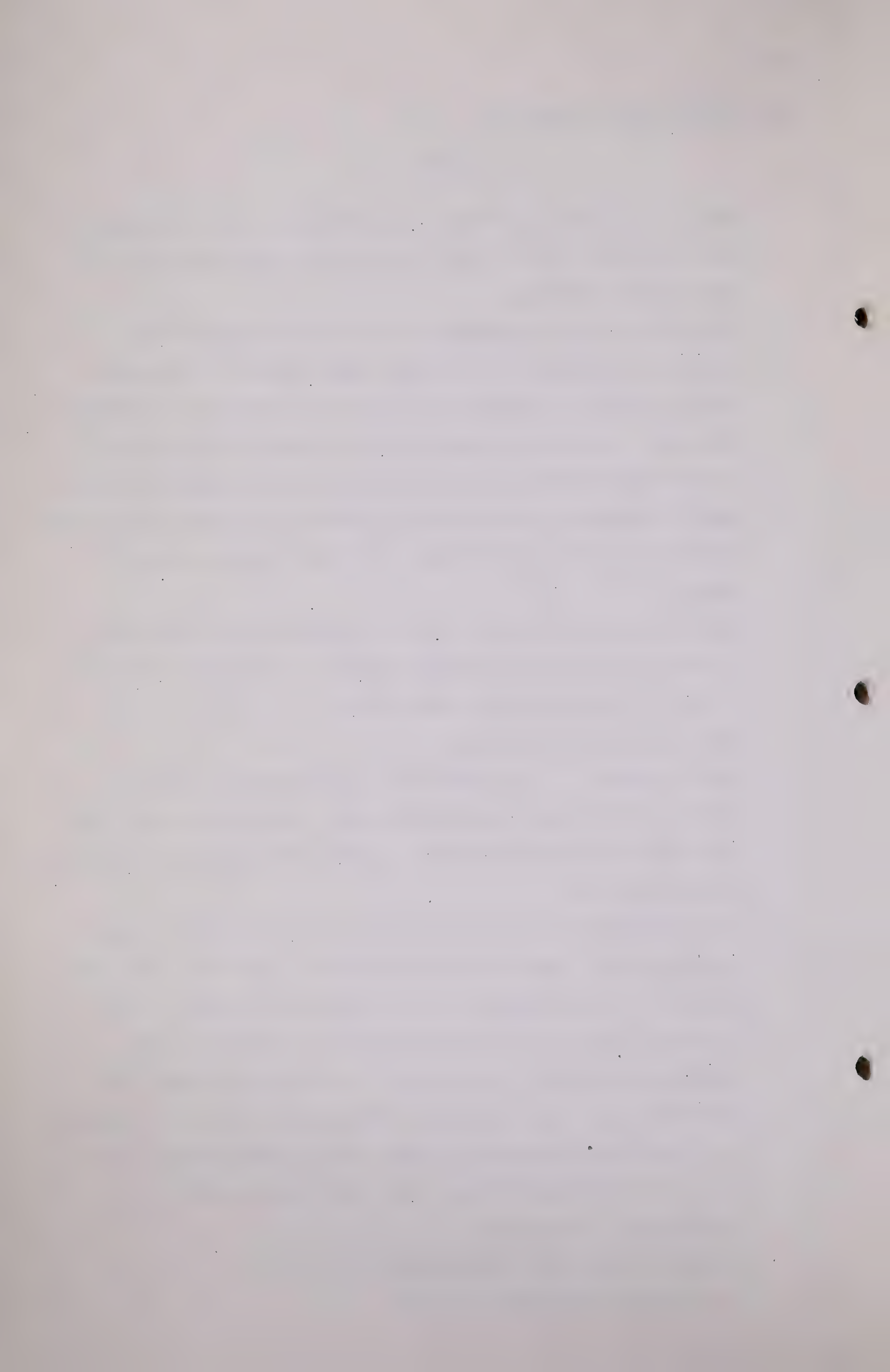
Q That is all, Mr. Hamilton.

Q THE CHAIRMAN: Mr. Hamilton, in discussing well-head prices and the cost approach thereto, you suggested that there were other methods of approach. What other methods of approach had you in mind?

A Well of course you could go to the other end of the picture and arrive at a terminal price at Calgary and then work back. That is one way of doing it. Another way of doing it would be to take the price of residue gas in relation to its repressuring costs or in relation to some other costs that might fall upon the producer. Or you might treat it directly on a waste product basis and ascribe a purely nominal value to it, or you might adhere to the historical concept and continue the 2 cent price.

Q Neither of them very scientific.

A I should not think so, sir, no.





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Cross-Exam. by Mr. Blanchard.

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THE CHAIRMAN: Any further cross-examination?

MR. BLANCHARD: Yes, Mr. Chairman.

CROSS-EXAMINATION OF THE SAME WITNESS BY MR. BLANCHARD.

- Q If you were to examine the cost basis in determining or assisting in determining the well head price, it would involve an examination of the cost of every crude well that is hooked up to the pipe line.
- A I would think, sir, you would have to confine yourself to gas producers. When you get into crude wells the practical problem of sorting out joint costs is almost insuperable and you could get almost any answer you want.

(Go to page 4870)



C-2-1 - 12.05 P.M.

R. W. Hamilton,  
Cross-Exam. by Mr. Blanchard.

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Q That is it, it is impossible to arrive at any figures of value on the gas from crude wells ?

A I would say it was absolutely impossible to find the cost of gas in a crude well. You could arrive at a figure which you might call "costs" but it is incapable of supporting that against any costs that somebody else has produced.

Q Now then you were discussing with Mr. Steer the five years, the fixing of a gas rate for five years, have you considered what would be done with the excess profits made during the first two or three of those five years ?

A Yes.

Q If there are excess profits ?

A Yes. My view would be that for the particular reason of the desirability of striking a five year price, and also for other reasons, it would be desirable to arrange for the carrying forward in the cost of each period of profits and losses against subsequent operations; that would enable you to strike a flat rate for a substantial period ahead, which is desirable from the point of view of all consumers.

Secondly it has the element of a partial guarantee to the Public Utility Company that it will in fact earn the rate of return that you intend it to earn and that if it does not make it the first year it will make it in the second year, so far as the powers of the Board extend and that has the desirable consequence of eliminating one of the elements of risk, and enabling the Board to set a lower rate of return.

Q Now I think just for the record, I think it was understood and it may have been covered at some point, what is the difference with respect to the incidence of income tax in the case of a company that has a bonded indebtedness and a company that is



*Journal of Management Studies*, 19(1), 67-80.

1. *Chlorophyll a* (Chl *a*)

1. *Chlorophyll a* (Chl *a*)

100

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| Age Group | Percentage of Respondents |
|-----------|---------------------------|
| 18-29     | 85%                       |
| 30-49     | 80%                       |
| 50-69     | 75%                       |
| 70+       | 70%                       |

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1. *Chlorophyll a* (Chl *a*)

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R. W. Hamilton,  
Cross-Exam. by Mr. Blanchard.

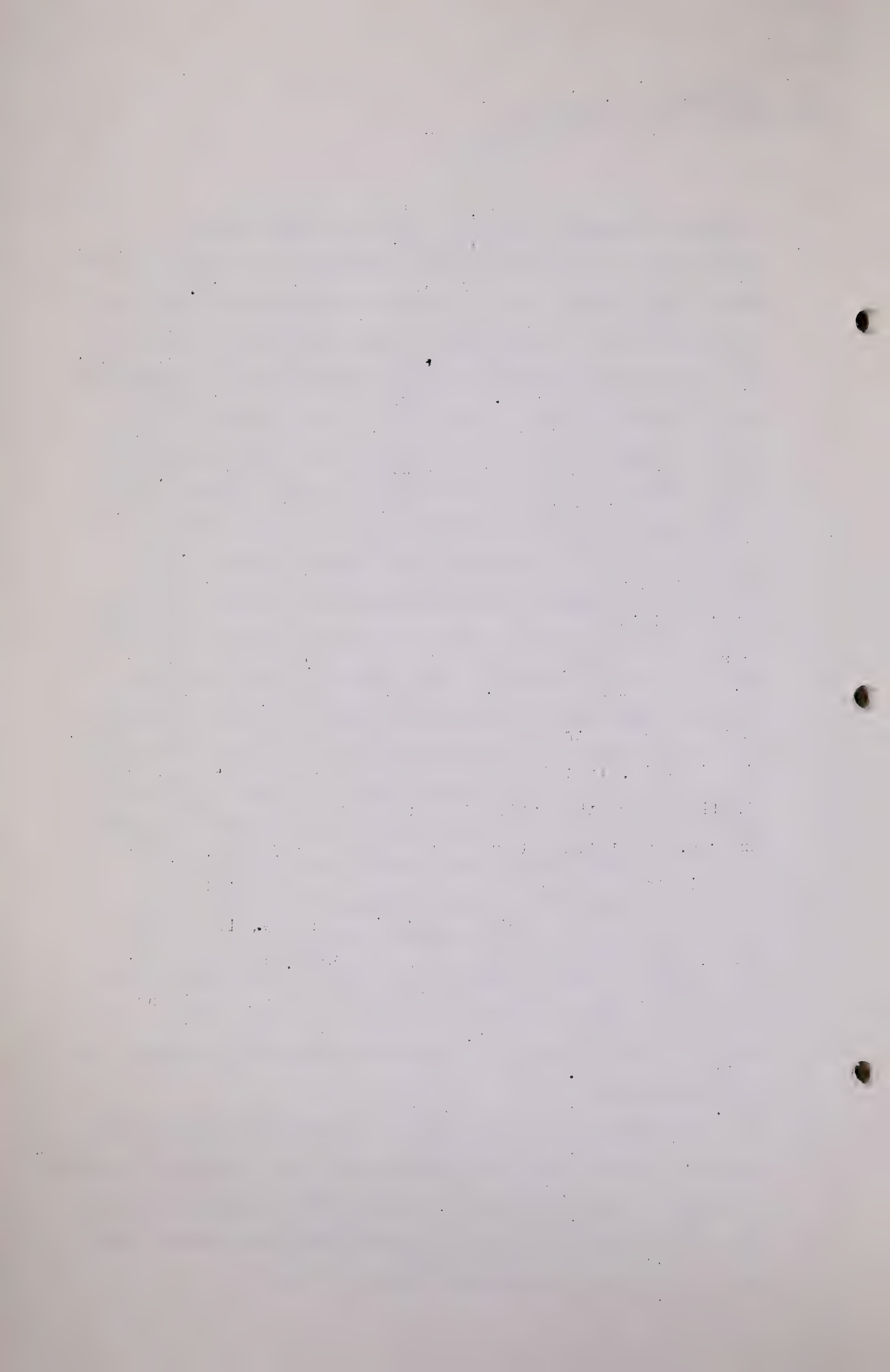
- 4871 -

financed by common stock, the issue of common stock ?

A Perhaps that is best explained in relation to the particular case of the Madison and the Royalite relationship. The rate of return which is distributed to investors in the form of bond interest is deductible by the Madison Company in determining its taxable income. The rate of return which is paid out to investors in the form of dividends is not deductible by the Madison Company in determining taxable income. So far as the recipient investor is concerned he will pay taxes on the bond issue as an element of his taxable income. If he were an unincorporated individual; he would likewise pay taxes on the dividends which he would receive but as in the present case the recipient being an incorporated company receiving dividends from another incorporated company, the dividend is not taxable in the hands of Royalite and therefore the situation is this, that if you compare the present set up capitalization where the entire investment is in the form of common shares, the total return that would be projected, will be taxable in the hands of the Madison Company and will not be taxed therefore in the hands of the Royalite Company. If a part of the investment were in the form of a bond, the taxes paid by the Madison Company would be less and the taxes paid by the Royalite would be greater. The same situation applies to the British American.

Q Yes. Now going to the allocation of gathering costs for the absorption plant, would you think or have you considered whether a different approach should be made to that question with respect to old installations on the one hand and installations made by order of the Board on the other hand ?

A I think - -





R. W. Hamilton,  
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Q Is it possible that a different situation would apply as to old installations utilized by the absorption plant prior to this time ?

A Yes, I think the relative importance of old to new installations should be taken into account or might be taken into account and also differences in operating conditions of the line. I have in mind that the British American lines were gathering for the absorption plant, whereas in the case of Madison they were gathering for the absorption plant and the residue market, but I do not think you can apply a set of rules as to the operation of costs because old lines will shortly lose their identity as old lines and constitute new lines and you just have to apply that figure to the whole picture.

Q In the one case the investment was made for the purpose of obtaining absorption gasoline and was considered by the Company operating the absorption plant as a profitable venture, whereas it might not have put in those new installations as a profitable venture ?

A Yes.

Q So there may be reasons for a different approach to the way in which those costs should be allocated ?

A Yes.

Q And it is something which you think should be considered ?

A Yes.

Q Now take the British American absorption plant, there the producer got 20% of the absorption product and the absorption plant 80%, that is the division ?

A Yes.

Q That is correct ?

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R. W. Hamilton,  
Cross-Exam. by Mr. Blanchard.

- 4873 -

A Yes.

Q And until it came under regulation or until it was connected with the residue gas line, all the gathering costs were paid out of the absorption plants 80% ?

A Yes.

Q And now if all that cost is to be borne by the Madison Company and passed on, if the absorption plant will retain all, - as a profit, all the costs of gathering, or will pass it on to the producer ?

A Yes.

Q As a benefit to him ?

A Yes.

Q And that is the situation with respect to the British American?

A Yes.

Q That being the case, will you let me put this to you, can you see any reason, worked on natural justice, why that benefit should be passed on to the producer at the cost of the consumer?

A I think that the principle of reasonable expectation, that Professor Stewart enunciated the other day, is helpful in that connection. I rather question whether the producer or the absorption plant ever had any strong probability in mind of being connected with the residue market. They may have had but if they had not any such expectation, they are not much worse off than they otherwise would have been.

Q In any event there is the cost of gathering, as a matter of profit to the absorption plant, so far as these old lines are concerned ?

A Anything which they get by reason of being connected on to the residue market is a gain.

Q Yes, so that it cannot be said that they only, - at least it

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R. W. Hamilton,  
Cross-Exam. by Mr. Blanchard.  
Cross-Exam. by Mr. Steer.

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might be unreasonable to say that the only part of the cost that should be allocated to them will be such gas as is lost by the process of absorption ?

A I do not subscribe to the volumetric method, no.

MR. BLANCHARD: All right, that is all.

MR. STEER: One question, Mr. Chairman.

CROSS-EXAMINED BY MR. STEER:

Q My learned friend Mr. McDonald did not persuade you today to hope that the shareholders of the Canadian Western were interested in providing part of the cost of this undertaking ?

A No sir.

Q But you have the conception of the Canadian Western as a public utility and entitled to have its product paid for by the consumer of its product, that is your conception of the Canadian Western ?

A Yes, if you do not distinguish between present and future consumers, yes.

Q Yes. Now so far as the Bow Island gas is concerned which you were talking about, is there any difference between the Canadian Western acquiring that gas and putting it in the ground for future consumption and acquiring we will say 640 acres of free hold gas rights which it proposes to drill out some time in the future and use the gas for its undertaking ?

A Well I think there is this difference, although the situations are analogous, you have scrubbed gas placed in a reservoir which is already connected by pipe lines and supported by compression equipment and in a field remote from Turner Valley, which introduces an element I suppose of safety to the company of having an alternative source of supply in the case of a



R. W. Hamilton,  
Cross-Exam. by Mr. Steer.

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breakdown.

Q There is no severance between the Bow Island area and the Turner Valley area, having in mind the existence of the pipe lines connecting them, those fields are not separate, they are all one field, are they not ?

A I would assume that.

Q Yes, and I will add to my assumption to 640 acres, that the gas is sweet ?

A Then the situations are quite analogous.

Q Yes, and I gathered one thing also, Mr. Hamilton, in your evidence this morning, and that is that it is your idea that it is impossible in this area to ascertain the cost with respect to a gas well because we have no such thing ?

A Well I say it is impossible to ascertain the cost of an oil well. I said that. It is possible to obtain the cost of a gas well if - -

Q Well now I am suggesting you have no such thing as a gas well in this area, - you have crude oil wells and naphtha wells and that neither one of them are gas wells ?

A We would have to agree on the definition of "cost", sir, and we would have a great deal of difficulty on agreeing on it.

Q Let us agree first on the character of the wells we have.

A All right, I will assume it.

Q I do not want you to assume it.

A I do not know, sir, but I have heard people say that, from time to time, that they were drilling for oil in the first instance.

Q I think we can agree. Here is a well that is drilled for crude oil and it produces wet gas ?

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A Yes.

Q That is a crude oil well ?

A Yes.

Q Now here is another well that is drilled and they are not lucky enough to get crude oil but they get gas with a gasoline content ?

A Yes.

Q Now that is not a gas well, it is something more than that I am suggesting to you ?

A It is a well that produces gas, that they had hoped would produce something else but it produces gas, therefore I call it a "gas well".

Q It does not produce gas in the form in which the gas can be utilized for heating ?

A In the sense that it must be processed in an absorption plant, yes.

Q You cannot use it with the gasoline content in it, it would be uneconomical to use it with the gasoline content in it, would it not, apparently it would be otherwise we would not have had all these absorption plants built in the area ?

A Yes, I am not sure you could not do it but they do not do it.

Q Yes.

A Although I believe at one time they did.

Q THE CHAIRMAN: They cannot use that gas today ?

A Not as it is but if it is used as fuel and that is the point Mr. Steer was speaking of.

Q MR. STEER: In any event is this not true, if you were going to utilize any cost approach, you first of all have to ascertain how many wells would have to be drilled so that the valuation of the area would be done by gas and gas only,



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that is the first thing that you would have to ascertain ?

A No sir, that is another cost approach. There are at least two and there are probably dozens. One is the commodity cost approach, that is what it would cost under certain conditions. The other is the case of what it does cost, whether it ought to cost that much or not. Now I say that those approaches are useful and there may be other approaches too and I think the answer that I gave to someone this morning that we would have to agree whether we were talking about cost, or what cost ought to be.

Q I see. Well suppose that the authorities said that you should talk about what the cost ought to be, then my proposition is right ?

A Yes.

Q If on the other hand you are going to talk about what the cost ought to be to the consumer of natural gas which is produced as a waste product then you have another method of approach to adopt ?

A Yes.

CROSS-EXAMINED BY MR. FENERTY:

Q Mr. Hamilton, when we were discussing this Statement WH 26, or you were discussing it with Mr. Blanchard, he was pointing out to you the results which would be arrived at should you proceed on that basis and that there would be no advantage to the undertaking, and Mr. Blanchard said:

"At December 31st, 1968, assuming that the undertaking reached maturity without loss, the shareholders of the Utility Company would have gotten back their full depreciation, or, in other words, their capital back. They





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would have received each year 3% interest on their money less the tax which they would have to pay on that in any event, and besides that there would be available at that time a further sum of \$4,227,000.00.

That, of course, assumes that there is actually no loss in capital. The final column is designed to show the net position of the proprietors in the event that the undertaking collapses at any particular time. If the undertaking were to fail at the end of 1944, the proprietors would lose \$2,600,000.00, but every passing year, of course, reduces the loss until you get to the year 1953, and from that time they are out of the woods."

And then you proceed to another basis to show that by the later date on another basis they would be out of the woods at a certain date; now assuming that such a result is arrived at and that at some date, 1953 or 1954, whatever it might be, the parties are out of the woods, should the interest rate from that time on be at your rate of 3% ?

A No sir.

Q It should not ?

A No sir.

Q Why not ?

A That is like taking twenty-five cents off a man for a lottery ticket and if he wins the lottery you give him the twenty-five cents back.

Q I see. Well now I got the impression that you are more or less treating this excess interest rate as a device for minimizing loss in the event of an abandonment of the undertaking ?



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A No sir, I am inclined to the view that was expressed in some of these financial authorities in which they point out that when you receive a rate of return which is higher than the risk rate with interest under unusual circumstances, the amounts that you receive in excess of the pure rate is a fund which you would have to utilize to protect yourself against capital losses; in other words if you had a miscellaneous portfolio of investments, you would have to use the excess earnings to cover yourself against losses which would occur in this or that or the other investment from time to time and the sinking fund approach to it is perhaps analogous. Nevertheless it shows the principles involved in this thing.

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Q You say however that if they maintain a sinking fund, from there on the amount that they would have in a sinking fund if they maintained a sinking fund, that would more than offset the loss that would be sustained by the abandonment of the property - from a certain date ?

A Yes sir.

Q And at some intermediate date they would have an amount which would partially offset the loss.

A Yes sir. I think it might be helpful just to make this observation. I am looking at WH-26, and at the end of the year 1948 for example they have a rate base of two million six hundred thousand, but they have been receiving not only the amount of annual depreciation during that time, and not only their pure interest, but they have been receiving this that I have chosen to call the excess risk return. Now, if they had disbursed that they would appear to have lost two million six hundred thousand, but if they put that excess return into a sinking fund they would have a million dollars to apply against what otherwise would have been a loss of two million six hundred. So that the actual loss at the time they abandoned the property and distributed the proceeds in the sinking fund - their actual loss would be one million five -

Q The whole of this table 26 and the subsequent ones are on the basis of showing all they can be safeguarded by loss by an excess interest rate, a percentage of loss in one year and another percentage in another and finally at a certain date they have been guarded against all loss by reason of this excess rate. That is what you show here is it not ?

A I do not think<sup>so</sup> if I understand your question correctly. All the table is designed to show is what would be the net capital

1. The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that proper record-keeping is essential for the transparency and accountability of the organization. This section also outlines the specific procedures for recording and verifying financial data.

2. The second part of the document focuses on the internal control system. It describes the various checks and balances in place to prevent fraud and ensure the integrity of the financial statements. This includes a detailed explanation of the approval process for all significant transactions.

3. The third part of the document addresses the external audit process. It explains how the organization's financial statements are reviewed by independent auditors to provide an objective opinion on their fairness and accuracy. This section also discusses the role of the audit committee in overseeing the audit process.

4. The fourth part of the document discusses the financial reporting process. It outlines the timeline for the preparation and release of the annual financial statements, as well as the responsibilities of the management and the board of directors. This section also includes information about the company's financial performance and its outlook for the future.

5. The fifth part of the document provides a summary of the key findings and recommendations from the audit. It highlights the areas where the organization's internal controls are strong and the areas where improvements are needed. This section also includes a list of specific actions that the management has agreed to take to address the audit findings.

6. The sixth part of the document is a conclusion that reiterates the organization's commitment to transparency and accountability. It expresses confidence in the accuracy and reliability of the financial statements and thanks the auditors for their professional services. This section also includes a statement from the CEO regarding the company's financial health and its future prospects.

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loss accruing to the shareholders of the company in the event of any failure occurring prior to a certain time.

Q At any particular time ?

A Yes sir.

Q We will take that then.

A I am presupposing a fixed rate throughout the life of the project.

Q It is designed to show what will be the net capital loss to the shareholders at any particular time and you show a certain loss of varying amounts down to 1952.

A Yes sir.

Q And then 1953 that has disappeared. Now that seems to me what I have been saying to you, you are seeking to show that they will lose part of their capital in any given year up to a certain time ?

A Yes sir.

Q And that disappears and they will make a certain gain as a result of this excess rate ?

A Yes sir.

THE CHAIRMAN: No plus the interest from the sinking fund.

Q MR. FENERTY: Oh yes. I am not concerned with the exact amount. And you say that if they go to 1953 in this Table I have, No. 26, they will have no capital loss given if they abandon the undertaking then ?

A Right.

Q Now I am going to suggest to you we are approaching this on the basis of safeguarding the income alone ?

A Yes.

Q And I suggest to you on the basis of the Company having an interest rate which also provides for its income<sup>tax</sup>/that is the





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consumer paying that income<sup>tax</sup> then that is a very expensive way of protecting the company from the capital loss to the consumer because you are going to protect him out of loss of income.

A The rate of return is not designed to protect them against loss. The rate of return is compensation paid for assuming the risk of loss which is a different thing entirely. You cannot protect them against loss if the project collapses next year but all you can do is to compensate them for running that risk.

Q The thing was suggested to me by the way you stated you set it up showing they would not have a capital loss. If what you say is they will always have a capital loss until they get the last dollar back from the capital ?

A But they have been more than compensated for that.

Q But still it remains if you are going to give them this rate of return, the idea is they get the capital back in the case of abandonment or they have less of a capital loss in the case of abandonment. You are not treating this as compensation for a risk they run at all ?

A Yes sir I am showing what they lose in relation to total compensation they have received up to certain points.

Q All right.

Q MR. CHAMBERS: Just one or two questions I would like to ask Mr. Hamilton arising out of recent discussions. Some of the questions directed to you Mr. Hamilton, have had to do with this question of cost as a basis for well head price and I take it from the questions and not only the questions but your answers that you felt that cost was not probably the main approach or probably the best approach for fixing the well head

THEORY

The first part of the theory is the definition of the function  $f(x)$  which is defined for all real numbers  $x$  and satisfies the following conditions:

1.  $f(x)$  is a continuous function of  $x$ .  
2.  $f(x)$  is a periodic function of  $x$  with period  $2\pi$ .  
3.  $f(x)$  is an odd function of  $x$ .

The second part of the theory is the definition of the function  $g(x)$  which is defined for all real numbers  $x$  and satisfies the following conditions:

1.  $g(x)$  is a continuous function of  $x$ .  
2.  $g(x)$  is a periodic function of  $x$  with period  $2\pi$ .  
3.  $g(x)$  is an even function of  $x$ .

The third part of the theory is the definition of the function  $h(x)$  which is defined for all real numbers  $x$  and satisfies the following conditions:

1.  $h(x)$  is a continuous function of  $x$ .  
2.  $h(x)$  is a periodic function of  $x$  with period  $2\pi$ .  
3.  $h(x)$  is an odd function of  $x$ .

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price. Is that right so far as you are concerned anyway ?

A It is only one of several, which is the best I do not know.

Q . And in any event the Legislature has authorized the Board to use some other method if it sees fit. What would you think of this as one of the approaches, is to endeavour to find a competitive value to the consumer as between the gas laid down at his plant or his home, fuel oil laid down at his plant or his home, coal, and to endeavour to assess the relative costs that he would have to do his particular job by use of all or either of those three items. What would you think of that as a factor that might well be considered ?

A Yes sir.

Q And you also said to my learned friend Mr. Steer, that you agreed that a Utility Company was entitled to have its costs paid by consumers, not necessarily the present consumers but its customers ?

A Yes sir.

Q And I take it that you would agree that a well owner so far as gas is concerned and you know it is a public utility under this Act, should be treated in the same way, should he not. Have you any distinction.

A I think the particular limit to the Act provides that the Board need not have regard to the cost. That is a direct negation of that proposition.

Q Would you agree with this that the principles should be applicable to all utilities. I see your point. Now Mr. Hamilton I am not trying to hold you down to the point that the gas from that particular well that he should get cost in that sense of the well. Maybe I had better put it this way. That the principle should be applied to all utilities irrespective of their

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nature or kind subject to this qualification that if it is not practicable some other just and reasonable proposition should be adopted in its place. Let me say this, rather than cost say values so far as that well is concerned ?

A Yes sir, if you will add to practical' other qualifications unfair.

Q Here is what I am getting at, gas for the market prior to regulation had some standard value or price in Turner Valley had it not ?

A Yes sir.

Q But take the situation where regulation has been brought in and there has been brought into the picture the conservation and storage of gas that would have otherwise have been flared. The person that was getting two cents for his gas before regulation is now faced with a situation assuming that the Board has set a two cent price that will continue for gas going to market. Then we take the average or 50% of the cost price to gather and repressure on your basis "C" of 2.858 cents. Then some person who we will say has two thousand cubic feet of gas, one to go to market and one to go to repressuring, in order to gather and compress and store that gas and pay that 2.858 cents. Now I suggest to you he there has an asset or cash to something of 4.858 cents, two cents for a thousand cubic feet to market plus the 2.858 cents that he has put in cash and that is his investment.

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H-3-1 12.37 p.m.

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(Continuation of question).

Now, I understood you to say that you thought the matter could be worked out so long as the well owner got something from each thousand cubic feet of gas going to market, is that so?

A In excess of whatever other costs he might have to bear.

Q Yes. Take that situation where he has this hypothetical 4.585 cents investment, and if you pay him a cent now for the gas going to market, does not that mean that he has got an investment of 3.585 still left?

A I am not sure that I follow you, but he might have.

Q Just the same as the Gas Company would have an investment in its property and its gas in Turner Valley. What is the distinction?

A Which it might or might not be able to recover.

Q Yes?

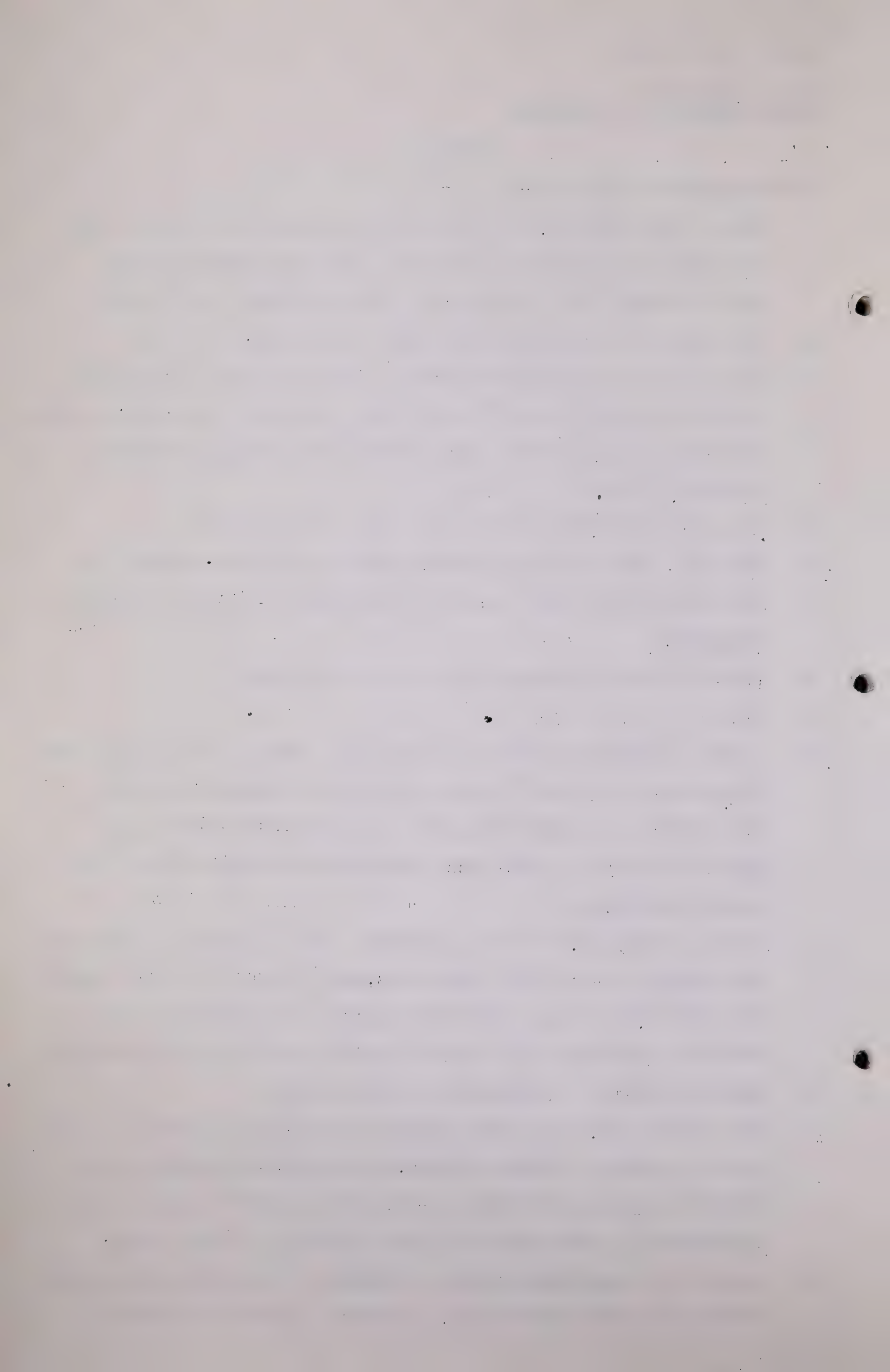
A I say the minimum position is that the producer should get something not in cash for his gas delivered to market in excess of what costs he is asked to assume in connection with the non-marketable gas. He then has a contingent interest in some gas placed in storage.

Q What I am suggesting to you is this, that in applying regulation and storage, that if the Board is going to proceed on the basis that the owner of the gas well is going to be worse off than prior to regulation, that that in effect amounts to confiscation?

A Not necessarily. It amounts to regulation.

Q But wouldn't you agree with this, that regulation should be set up in the absence of some clear-cut and mandatory ruling in the Statute so as not to affect or take away people's property, and by property I mean confiscate their profits or their money?

A You are not suggesting to me, or asking me to accept the proposition that confiscation means putting a person in a poorer





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position than regulation would in the other way?

A No, but what I am suggesting with regard to the confiscation is this, at least, that when the regulatory Board is making its forecast, and if that forecast shows that the owner of a thousand cubic feet of gas is going to put up his money and is going to put up a piece of property, in this case a thousand cubic feet of gas, with no expectation of ever getting it back on a sound basis on any reasonable forecast, that that scheme would amount to confiscation?

A That is right.

Q That is all thank you.

Q MR. BLANCHARD: May I just ask a question on that point? The producer has a choice has he not, he does not need to produce more than the market?

A So I understand, sir.

THE CHAIRMAN: Anything further? All right then, to what date shall we adjourn, the 2nd of January?

MR. BLANCHARD: I am not doing anything on New Year's, Sir.

MR. McDONALD: I might say, Mr. Chairman, with regard to the submission on competitive fuels of the Producers' Committee, Mr. Zinder will be available on January 21st.

MR. STEER: That will be a very satisfactory date to which to adjourn, Sir.

THE CHAIRMAN: We have Mr. Mercer's cross-examination yet. We can get rid of that in the meantime. What about that Mr. Chambers.

MR. CHAMBERS: I am sure we will be ready before that. I have not talked to Mr. Mercer, but I intend to. I know he has been getting some statements ready.



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THE CHAIRMAN: All right. We will adjourn to the 7th of January, which is the first Monday in January.

MR. McDONALD: There was another matter I was going to speak to, Mr. Chairman, and that was in connection with the case as a whole. I think we have now come to the stage of the proceedings that the Board could very well give consideration to an application to fix interim prices at the wellhead.

THE CHAIRMAN: No, I am not going to do that, Mr. McDonald. I am not going to fix any interim rates because I have not got fixed ideas as to what the rates are going to be, and there are 61 volumes of evidence to look over. When I am going to start writing, I am going to be finished. I am not going to fix any interim rate now. I think it would be quite wrong to do so.

MR. McDONALD: The only reason I had in mind, Mr. Chairman, was that we have a conflict of opinion, first, with regard to the question of information to be received from the Gas Company. Now, it may be that the Court of Appeal will not deal with it for some time, and then we are always faced with the possibility of having again an appeal from the decision of the Court that is now dealing with the matter. We have on record, or will have during the month of January, I believe, practically all of the evidence that we can usefully put before the Board up to this stage, and what I had in mind in making the application on behalf of the Producers, is that I could endeavour to put before the Board a reasonable summary, as it were, of the evidence that is now in, on which the Board would be fully justified in fixing an interim rate. The reason I suggest that, Mr. Chairman, is that this is the year in which there is a large market for the gas, and it is essential to the





Producers that they, if possible, get an increased price. Not only is that of importance, but there is the other item of accumulative deficit, if there should be an accumulative deficit in the Madison and the B.A. Companies, it would have to be capitalized and that would be a serious matter in the event that it would run into a substantial sum of money. If it should be carried on, if it is something that is carried on, the present consumers would be getting the benefit of the reduced price, and the consumers of the future would be carrying on the rate of return on that accumulated deficit, and I think that in all fairness to the consumers, that that should be dealt with as soon as possible.

THE CHAIRMAN: Well, Mr. McDonald, I am not responsible for all the delay that has taken place, and I am going to adopt the attitude for once, and take the attitude that one of the Judges always took when he said, "It is very sad and very terrible, but it does not affect me, and I am not going to bother with it."

MR. STEER: There is a General Meeting of the Bar, Sir, on the 9th of January. It does not affect me as vitally as it would have done last year, but every Counsel that is engaged here, I am sure, will want to attend.

THE CHAIRMAN: That is on the Wednesday?

MR. STEER: Yes.

THE CHAIRMAN: I will adjourn on Tuesday.

MR. STEER: I would suggest that Mr. Morcor's cross-examination won't take more than the 14th, 15th and 16th, and if we finish with him on the week of the 7th, we would not have anything until the week of the 21st.

THE CHAIRMAN: I think that Mr. Chambers will tell you





that I have something that will keep me busy during that week.

MR. CHAMBERS: I would think so, sir, part of the time anyway.

MR. FENERTY: If we do sit during that week, perhaps we might be able to confine it to the two days. There is a meeting of the Benchers on the 10th. I think, as Mr. Steer says, as we have had no general meeting of the Bar for four or five years, I think the members from Calgary would want to attend that general meeting.

THE CHAIRMAN: Well, we will adjourn to the 7th of January, and sit on the 7th and 8th.

MR. HARVIE: There is just one other matter, Mr. Chairman, some time ago you asked Mr. Donnellan if he would file the working papers of Mr. McCutchin. They have been accumulated, and they are at times used by the Company. They are at the Head Office of the Company in Calgary, and will be available, if that will be satisfactory.

THE CHAIRMAN: Yes. We will now adjourn to the 7th of January.

(The Hearing was then adjourned to 9.30 A.M., January 7th, 1946.)











